

# **Small Business Tax Compliance Burden: What can be done to Level the Playing Field?**

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# Abstract

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One of the major issues associated with taxation are the costs incurred by taxpayers when they comply with their tax obligations, this is particularly important for smaller business taxpayers. Compliance costs are found to be regressive, falling with disproportionate severity on smaller businesses. This trend can be found across the globe and more importantly, in New Zealand. Prior research has shown that the severity of the regressiveness has increased over time. The current, “one-size-fits-all”, approach used in the New Zealand tax system, and others alike, have created undue complexity for small businesses. This study reviews small business tax regimes and concessions currently implemented (or proposed) in different countries to relieve the compliance burden for smaller businesses. Australia, South Africa, the United Kingdom and the United States have either implemented a separate tax regime, or offers tax concessions to smaller business taxpayers. New Zealand on the other hand, presents minor ad hoc tax concessions for small business taxpayers, but since 2009, there have been proposals to change this system. This study evaluates and compares all the implemented (or proposed) regimes and concessions of the selected countries. Following from the case studies, interviews are conducted with tax professionals that have worked closely with smaller businesses, in order to shed light on the possibility of implementing a similar regime in New Zealand. The findings show that a small business tax regime has many avenues to consider, however, there is general consensus that suggests small business taxation should be kept as simple as possible. This thesis puts forward a baseline for further discussion and development of a small business regime to reduce compliance costs for smaller businesses.

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### Currency Exchange Rates as at 1 February 2015

	Denoted As	New Zealand Dollars
Australian Dollar	AUD\$1	\$1.07
South African Rand	R1	\$0.11
British Pound Sterling	£1	\$2.07
United States Dollar	USD\$1	\$1.37
Singapore Dollar	SGD\$1	\$1.02
Hong Kong Dollar	HKD\$1	\$0.18

The foreign currency will be presented followed by [NZD] for relative comparison.

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# Chapter 1: Introduction

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## 1.1 Background to the Topic

In most countries, the small business sector is a vital component for the local economy because it provides employment, innovation and economic growth (Tran-Nam & Glover, 2002). In fact, Rupasingha (2013) found that local entrepreneurs and small businesses have a more positive effect on local economic performance than larger local businesses. New Zealand is no different, as the small to medium sized enterprise (SME) sector represents 97.2 per cent of all enterprises, employs 30.2 per cent of all employees and contributes 27.8 per cent of gross domestic product (GDP) (Ministry of Business, Innovation and Employment 2013). Similarly, Australia's small business sector makes up 95.6 per cent of all businesses, and combined with the medium sized sector, the total SME sector comprises 99.7 per cent of all enterprises (Department of Innovation Industry Science and Research, 2011). The SME sector clearly represents a major component of a local economy. However, many tax systems use a one-size-fits-all approach (meaning that smaller businesses are not always treated differently than larger ones), which gives rise to 'complexity creep' for smaller businesses, and increased complexity means increased costs (NZICA & TMNZ, 2009). It is well known that small business tend to bear a disproportionate burden of tax compliance costs (Tran-Nam & Glover, 2002).

Sandford and Hasseldine (1992) found that the compliance costs of business taxes in New Zealand were regressive, which meant that the burden of compliance costs fall disproportionately on smaller entities than larger ones. Subsequent studies (Brunton, 2005; Inland Revenue, 2010, Gupta & Sawyer, 2015) continue to find that the compliance costs impose a greater burden on smaller businesses, due to their limited resources and

the insufficient cash flow benefits stemming from compliance with tax laws. Overall from the earliest studies in 1992 to 2015, the last 20 years of compliance research has provided evidence to support the fact that the regressivity of compliance costs has not significantly decreased, but in fact, it has increased.

New Zealand has not implemented a specific regime or a comprehensive system for small businesses to combat the regressive nature of compliance costs. However, New Zealand has adopted an ad hoc approach by providing concessions aimed towards smaller business taxpayers to ease the burden of tax compliance. Examples of these include a depreciation write-off of up to \$500 (Inland Revenue, 2012), removal of yearly stocktakes (Chapman Upchurch Limited, 2014), and deductions for start-up legal fees of up to \$10,000 (Inland Revenue, 2014). As research has shown, the regressive burden of compliance costs has increased over time (Brunton, 2005; Inland Revenue, 2010, Gupta & Sawyer, 2015), despite the inclusion of these concessions. This suggests that something further needs to be done to combat this regressiveness.

New Zealand's largest member professional accounting body, the New Zealand Institute of Chartered Accountants (NZICA),<sup>1</sup> with support from Tax Management New Zealand (TMNZ), introduced a proposal, in 2009,<sup>2</sup> to simplify the tax system for small and micro businesses. In 2012, a revised version of the initial proposal was subsequently released in the light of the initial feedback from submissions.<sup>3</sup> The proposal aims to reduce the time spent on tax compliance activities for small businesses, consequently freeing-up time for taxpayers and/or accountants. Other tax jurisdictions, such as Australia, South Africa, the

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<sup>1</sup> Now known as Chartered Accountants Australia and New Zealand as the New Zealand Institute of Chartered Accountants have merged with Chartered Accountants Australia with effect from a date in 2015. However, NZICA will continue to be used throughout this project unless stated otherwise.

<sup>2</sup> Simplifying the Taxation of Small Business in New Zealand *SME Tax: One Hour per Month* (2009). Retrieved from <http://www.smetax.co.nz/reports/2009-report/>.

<sup>3</sup> Simplifying the Taxation of Small Business in New Zealand *SME Tax: One Hour per Month* (2012). Retrieved from <http://www.smetax.co.nz/reports/2012-report/>.

United Kingdom (UK) and the United States (US) have recognised the disproportionate burden of tax regulations on smaller businesses, and have implemented different regimes and concessions to reduce the burden of tax compliance for these businesses. Comparing the different concessions and provisions provided within each regime will help in the design of a best practice template for supporting small businesses in New Zealand.

A regime to simplify the tax system for small businesses in New Zealand is still in the development (discussion) stage; consequently the impact on small businesses can only be speculative. The aim of this study is to analyse a selection of implemented (or proposed) regimes and systems, so the weaknesses and strengths of each regime can be drawn together to create a best practice template for New Zealand. Therefore, in this research project, I propose two research questions as follows:

*RQ1. What tax regimes are currently in place (or proposed) for small businesses, in a group of selected countries, to reduce the tax compliance burden of these businesses?*

*RQ2. Of the tax regimes (and specific provisions) implemented or proposed in these selected countries, which of them, if implemented, could be expected to reduce the compliance costs of taxation for small businesses in New Zealand?*

Policymakers in New Zealand will initially be the main beneficiaries of this research because the findings from this thesis should help in the decision whether to implement a small business tax regime. However, the findings from the research will not be limited to a New Zealand context, as the best practice template may be applicable in other jurisdictions, such as Canada, which has expressed interest in developing a regime to

simplify the taxes for small businesses, with the aim of reducing the compliance burden of taxes.<sup>4</sup>

No single definition for “small business” is adopted in this study. Rather the term ‘small business’ is interpreted in accordance with the definition adopted in each jurisdiction.

This research used a case study approach to answer the first research question. A preliminary review of small business regimes from different countries revealed that relatively few countries have adopted a small business tax regime. Therefore, the scope of the investigation included all countries known to have a regime with the information available, namely Australia, South Africa, the UK, and the US, as well as a consideration of the regime recommended for New Zealand. It should be noted that the US does not have a separate regime, but rather offer ad hoc concessions targeted towards small businesses. These are analysed the same as the other regimes. As a part of the author’s earlier research analysed regimes in Australia and the UK, comparing them to New Zealand’s actual and recommended regime. This research extends. This thesis uses documentary analysis to collect information about the existing regimes. Once the information from each country is analysed, key components from the different regimes were extracted and aggregated.

The second research question was addressed using a series of semi-structured interviews with tax professionals. Tax professionals were defined in this research project as individuals who have had substantial tax experience in New Zealand, either as practitioners or advisors to professional accounting bodies. The interviews provide further clarity on whether a small business regime should be implemented in New Zealand, and if so, how it should be structured. The interviewees are provided with a list of concessions,

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<sup>4</sup> Retrieved from: <http://www.cica.ca/focus-on-practice-areas/taxation/conversations-about-tax/entries/item77477.aspx>.

drawn from the documentary analysis, and the interview questions, prior to the interview, to enable them to give prior consideration when offering their opinions of the study.

## **1.2 Importance of the Topic and Purpose**

The motivation for this thesis is the concern that compliance costs are borne disproportionately by smaller businesses, which in turn leads to non-compliance with the tax law. The SME sector in New Zealand represents the majority of businesses. According to Jackson and Milliron (1986), the costs associated with tax compliance may be a factor in tax non-compliance. Hall and Rabushka<sup>5</sup> (as cited in Jackson and Milliron, 1986, p. 144) state that “...because of labour and/or expense involved, some taxpayers may not be sufficiently motivated either to make the effort themselves or to pay for professional assistance in order to comply with the law”. This is especially important since taxpayers are responsible for assessing their taxable income and income tax liability.<sup>6</sup> Richardson and Sawyer (2001) provide an updated review of a number of tax compliance variables. However, the relationship between compliance costs and taxpayer behaviour remains under-researched. Further research will be required to determine the extent to which compliance costs affects non-compliance.

Australia, South Africa, the UK, and the US have implemented regimes or provided concessions to reduce compliance costs for smaller businesses, with the potential to subsequently increase voluntary compliance by their smaller businesses. New Zealand, on the other hand, has not implemented a system to address this regressivity of compliance costs.

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<sup>5</sup> Hall, R., and Rabushka, A (1982), Low Tax, Simple Tax, Flat Tax.

<sup>6</sup> In 2001, the Tax Administration Act 1994 formalised self-assessment in the New Zealand tax system. Retrieved from: <https://www.ird.govt.nz/technical-tax/legislation/2005/2005-111/2005-111-remedial-issues/ri-date-self-assessment/>.

New Zealand operates on a tax system that applies to all businesses, big and small. . However, NZICA with the support of TMNZ, released proposals to generate discussion with the intention to introduce a similar regime in New Zealand. The findings of this research should firstly provide a basis for further development of a preferential tax regime in New Zealand for smaller businesses to, in essence, ‘level the playing field’ in terms of compliance costs. Second, the findings from this study intended to generate discussion in other countries that are also deciding whether to introduce a tax regime designed for smaller businesses.

### **1.3 Structure of the Thesis**

The remainder of this thesis is arranged in the following manner. Chapter 2 reviews prior research on the cost of tax compliance from several different countries, and the impact and extent will be contrasted between larger and smaller businesses. Chapter 3 provides the research questions, research methods and research approach utilised in this project. Chapter 4 contains the case studies drawn from the selected countries’ small business regimes or concessions that have been implemented or (in the case of New Zealand) proposed. Chapter 5 presents the information collected from the interviews with the tax professionals, followed by Chapter 6, which sets an overall discussion about the findings and provides a conclusion for this thesis, along with limitations and areas of future research.



# Chapter 2: Literature Review

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## 2.1 Introduction

Adam Smith's *Wealth of Nations* is one of the earliest writings that identifies a cost associated with tax compliance (Smith, 1995). While he does not use the term compliance cost, three of the canons of taxation were concerned with compliance costs. The principles of certainty and convenience are directly related to compliance costs, while economy in operation has some relation to compliance costs. Sandford, Godwin, and Hardwick (1989) was the first study to identify and distinguish compliance costs from administrative costs. The authors describe compliance costs as the costs incurred by taxpayers complying with the requirements of the tax law. Whereas administrative costs, are the costs incurred by the revenue authority in collecting tax revenue, such as wages and salaries for their staff.

Compliance costs are a consequence of having complex, inconsistent and poorly structured tax law (McKerchar, Ingraham, & Karlinsky, 2005). The authors further find that complex tax laws result in reduced technical accuracy when filing returns by both tax professionals and individual taxpayers. Therefore, the movement towards greater self-assessment, which shifts the burden of tax assessment from the tax authorities to taxpayers, may contribute to both intentional and unintentional non-compliance (James & Alley, 2002).

According to McKerchar et al. (2005) small businesses appear to be the group most adversely affected by increasing tax law complexity and escalating compliance costs. The literature review in this section examines different studies that describe and quantify the compliance costs faced by small businesses relative to larger businesses from the main

countries of interest (New Zealand, Australia, South Africa, the UK, and the US). Other countries are also discussed, but to a lesser degree due to limited data and analysis that is available with respect of those other countries.

## **2.2 Different Compliance Costs of Business Taxation**

According to Sandford and Hasseldine (1992) compliance costs are the costs incurred by individuals and businesses as a result of meeting the requirements of the tax system. These costs are over and above the payment of the tax itself. Walpole (1999) describes these costs as “pure” compliance costs, examples of which include taxpayers’ own labour, the unpaid assistance and internal staff costs, costs of external advisors, and incidental or overhead costs (postage, stationery, or computer costs).

Hanefah, Ariff, and Kasipillai (2002) further categorise these costs as either internal or external costs. Internal costs are related to the time spent by staff maintaining and preparing information for professional advisers, completing tax returns, and dealing with revenue authorities. External costs can be described as payments made to acquire services of lawyers, accountants and investment advisers from outside the taxpayers’ organisation.

There are different types of compliance costs such as monetary, time and psychological costs. Monetary costs and time costs have predominately been researched in compliance cost studies, as Sandford and Hasseldine (1992) explain that time costs can be easily converted into monetary terms, (although different opinions as to the conversion rate will arise). Psychological costs of compliance can be very difficult to measure reliably in monetary terms (Woellner, Coleman, Mckerchar, Walpole, & Zetler, 2007). The authors suggest that taxpayers could be asked what they will pay to have someone else undertake their compliance obligations. However, this method is recognised as highly subjective

responses, and consequently, these costs have been excluded from the calculation of the total cost of tax compliance in many compliance studies (Walpole, 1999; Tran-Nam & Glover, 2002; Colmar Brunton, 2005; Hansford & Hasseldine, 2012; Gupta & Sawyer, 2015). While psychological costs are excluded in the calculation of the total compliance cost, they should not be assumed to be unimportant, as Sandford and Hasseldine (1992) find that the frustration, hassle and anxiety arising from meeting tax obligations have some adverse economic consequences.

The intended outcome of this thesis aims to identify ways to reduce all forms of tax compliance costs for smaller businesses, lessen the monetary expense, reducing the time spent filing or preparing records, and consequently reducing the levels of stress and anxiety, while increasing the taxpayers' confidence of the accuracy of their tax position when filing their returns.

## **2.3 Quantifying the Costs of Business tax Compliance**

In this section, the review focuses on studies that quantify tax compliance costs in New Zealand, Australia, South Africa, the UK, and the US. Four of these five countries have implemented small business tax regimes or concessions to reduce compliance costs. With respect to New Zealand, while no small business tax regime exists at present, there has been a proposal tabled by NZICA and TMNZ for such a regime, as well as New Zealand being the focal point of the study and place of residence for the researcher; hence the inclusion of New Zealand. Other countries (Slovenia, Croatia, Armenia, Hong Kong, and Singapore) will also be reviewed but not to the same depth as the other five countries due to the limited critique available in respect of these countries.

When evaluating the cost of tax compliance, consideration must be given to the distinction between gross and net compliance costs. Sandford et al. (1989) explain that the compliance effects may not always be entirely detrimental, and that there may be benefits from compliance, which constitute an offset to the cost. Benefits of tax compliance include cash flow advantages, such that businesses have the use of tax revenues for a period before they must be handed over to the revenue authorities. Furthermore, there are also managerial benefits from tax compliance, as explained in Lignier (2009) as tax compliance encourages business owners to maintain good accounting records. By reducing the total compliance costs by the associated benefits (that is giving net compliance costs), it will provide a more accurate evaluation of the compliance burden faced by businesses. However, many studies do not reduce the compliance costs by the associated benefits, so fluctuations between results can be expected.

### ***2.3.1 New Zealand***

Sandford and Hasseldine (1992) is the earliest comprehensive business compliance cost study conducted in a New Zealand context. Prior to their study, the Consultative Committee on Tax Simplification (The Waugh Committee) had proposed different ways in which the tax laws could be simplified (Tax Simplification Consultative Committee, 1990). This led to the funding for the study of Sandford and Hasseldine (1992) from the Inland Revenue Department (IRD). The purpose for their study was to evaluate the compliance costs of the tax legislation prior to any simplification changes, in order to establish a benchmark for follow-up studies in the future. The authors used two separate mail surveys<sup>7</sup> to collect their data on the costs of compliance. One of the surveys

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<sup>7</sup> Two surveys were used because the authors believed that a single survey would have required an extensive questionnaire, which may adversely affect response rates.

collected data on the costs related to the employers, such as pay-as-you-earn (PAYE), fringe benefit tax (FBT) and other withholding taxes on employees' income. The other related to goods and services tax (GST) and business income tax.

The overall compliance costs of business taxation was estimated to be approximately \$1,882 million, which was made up from 46.5 million hours of time spent and costs of over \$600 million paid for external advisers fees as well as other various costs. The average compliance cost associated with the smallest sized business group (turnover less than \$30,000) was equivalent to 13.4 per cent of the firm's turnover (or \$3,345).<sup>8</sup> This compared to the equivalent of 0.03 per cent of turnover (or \$59,404)<sup>9</sup> for the largest business group (turnover more than \$50 million). Sandford and Hasseldine (1992) found evidence to suggest that compliance costs of business taxation are regressive, both individually to each tax and collectively for all taxes.

In 2004, the IRD commissioned Colmar Brunton to measure the compliance burden of taxation on SMEs (Colmar Brunton, 2005). This study found that the average amount of time a business spent per year on internal tax activities was approximately 76.7 hours, with the most time spent complying with GST, then followed by income tax requirements. The average combined compliance cost (internal and external) on SMEs was \$4,024.<sup>10</sup> The compliance cost for the smallest businesses explored in thier study (turnover of up to \$19,999), was 21 per cent of the firm's total turnover, when compared to the largest businesses (turnover of up to \$1.3 million) was 0.2 per cent of turnover. Colmar Brunton's findings show that the compliance costs were regressive; this is not only consistent with Sandford and Hasseldine (1992), but also shows that the regressivity had not been reduced over the 10 year period, and in fact showed an increase.

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<sup>8</sup> \$3,345, adjusted for inflation from 1992 to 2014 is \$5,400.

<sup>9</sup> \$59,404, adjusted for inflation from 1992 to 2014 is \$95,899.

<sup>10</sup> \$4,024, adjusted for inflation from 2004 to 2014 is \$5,192.

The follow-up study, Inland Revenue (2010), found that average combined compliance costs had risen in nominal terms to \$5,557.<sup>11</sup> When compared to the 2004 study (Colmar Brunton, 2005), compliance costs actually decreased by 1.3 per cent (adjusted for inflation), primarily as a result in the reduction in the total amount of time spent on tax compliance activities. This finding was unexpected due to the additional hours needed to comply with KiwiSaver,<sup>12</sup> and additional student loan repayments (from an increased proportion of businesses with student loan payers). No definitive answer could explain this decrease, but Inland Revenue's researchers hypothesise that: differences in the SME demographic characteristics, the impact of the economic recession, or incremental changes in tax policy (either individually or collectively) could have had an effect on the result. While there has been an overall decrease in compliance costs, the regressivity remains.

Gupta and Sawyer (2015) conducted the most recent investigation into the compliance burden for small businesses in New Zealand, as well as contributed to a larger international project including Australia (Lignier & Evans, 2012), South Africa (Smulders, Stiglingh, Franzsen, & Fletcher, 2012), the UK (Hansford & Hasseldine, 2012), Ireland, Canada and the US. While the parameters of the study were kept in line with the larger international comparisons, limited comparisons can still be made with the earlier New Zealand studies (Colmar Brunton, 2005; Inland Revenue, 2010). Gupta and Sawyer's study finds that the average total amount of hours spent on tax compliance activities was 479.17 per year, with GST contributing to more than half of the total time spent. This contributed to an average combined cost of compliance of \$31,096. This figure was comparatively larger when compared against prior studies (Sandford &

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<sup>11</sup> \$5,557, adjusted for inflation from 2010 to 2014 is \$6,063.

<sup>12</sup> KiwiSaver is a Government initiative set up to help save for retirement, usually deducted at source. Retrieved from <https://www.kiwisaver.govt.nz/new/about/>.

Hasseldine, 1992; Colmar Brunton, 2005; Inland Revenue, 2010). The authors were unable to explain such a difference in the result. Furthermore, Gupta and Sawyer (2015) reaffirm that compliance costs continue to be regressive based on business size.

### **2.3.2 Australia**

In the late 1980s and early 1990s, Pope et al.<sup>13</sup> (as cited in Chittenden, Kauser, & Poutziouris, 2003, p.104) conducted the majority of the early compliance costs of taxation research in Australia. The overall findings from these studies show that the estimated burden of complying with tax law are disproportionately high, with company taxes being the most burdensome. According to Chittenden et al. (2003), the Australian Tax Office (ATO) had expressed doubts about the reliability of the results from the Pope et al. studies. The Australian Taxation Studies Program (ATAX)<sup>14</sup> attempted to provide a more comprehensive picture of the compliance costs associated with taxation. The ATAX study confirms that small businesses (turnover less than AUD\$100,000 [\$107,000]) are significantly burdened with compliance costs, particularly in terms of the total number of hours taken up. The collected data suggests that 90 per cent of all time costs are borne by small firms. Furthermore, there is evidence to suggest that the compliance costs for larger firms are, in essence, negative due to corresponding tax deductions and cash flow benefits.

The Review of Business Taxation (RBT), led by John Ralph, submitted its report to the Treasury in 1999 (Ralph, Allert, & Joss, 1999). The recommendations of the RBT led to various changes to the tax base, for example, a reduction in the corporate tax rate from 33

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<sup>13</sup> Pope, J., Fayle, R. and Chen, D. L. (1989) The Compliance Costs of Personal Income Tax in Australia; (1991) The Compliance Costs of Public Companies' Income Tax in Australia; (1992) The Compliance Costs of Employment Related Taxation in Australia. Pope, J., Fayle, R. and Duncanson, M. (1990) The Compliance Costs of Personal Income Taxation in Australia, 1986/87.

<sup>14</sup> Evans, C., Ritchie, K., Tran Nam, B., and Walpole, M. A. (1997) 'A Report into Taxpayer Costs of Compliance' (ATAX).

per cent to 30 per cent. The RBT also led to the adoption of a new tax regime for small businesses, known as the Simplified Tax System (STS). The purpose of the system was to eliminate the additional and regressive compliance burden faced by small business. The initial eligibility criteria into the STS was that a business must have a turnover of less than AUD\$1 million [\$1,070,000] and less than AUD\$3 million [\$3,210,000] worth of depreciable assets. The STS had various tax concessions available for its members, such as the use of cash accounting, simpler depreciation methods and simpler trading stock requirements when determining their taxable income. Due to the low-take up rate and criticism of the STS's design, the system was subsequently revised and replaced by the Small Business Entities (SBE) regime in 2007 (Dirkis and Bondfield, 2004; Mckerchar, 2007; Tretola, 2007; Kenny, 2008). The SBE regime is currently used in Australia, both the STS and SBE regimes will be discussed later in Chapter 4.

Tran-Nam and Glover (2002) conducted a study to measure both the transitional and recurrent business compliance costs of the tax reform. The authors found that the mean gross transitional compliance costs were AUD\$5,442 [\$5,822] per small business, and after taking into account tax deductibility and direct subsidies, the average compliance costs were estimated to AUD\$3,815<sup>15</sup> [\$4,082]. The study also noted that most participants were unaware of the STS, while others confused the STS with another tax initiative, such as GST. As a result, the study did not capture the effectiveness of the STS at reducing compliance costs.

Lignier and Evans (2012) conducted a study in 2010 to collect fresh data about the compliance burden imposed by the tax system upon small business taxpayers. This study was completed as a part of a larger international comparative study, similar to New Zealand's study (Gupta & Sawyer, 2015). Lignier and Evan's study recognises the lack of

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<sup>15</sup> \$3,815, adjusted for Australia's inflation from 2002 to 2014 is \$5,265 [\$5,633].



a universal measure for what qualifies as a ‘small business’, so for their study any business with 50 or less full-time employees will constitute a ‘small business’. Their study found that the average time spent on tax compliance activities was 493 hours per year, and more than half the time was spent on GST activities. In addition, the authors compared this finding to an earlier study by Evans et al.<sup>16</sup> (as cited in Lignier and Evans, 2012) to determine which activity consumed the most time, prior to the introduction of GST in 2000. They found that recording information was most time consuming, which suggests that the introduction of GST would have severely increased the amount of time spent on compliance activities. The average combined cost of tax compliance for businesses with 50 or fewer employees was AUD\$32,389<sup>17</sup> [\$34,656]. However, the findings of the study should be interpreted cautiously, as the sample was skewed towards larger businesses.<sup>18</sup> The overall finding does suggest that the regressivity of compliance costs have not subsided, and in fact, the regressivity may have increased since 1995.

### *2.3.3 South Africa*

Smulders and Stiglingh (2008) aim to establish the first study into the compliance costs by small businesses in South Africa. An electronic questionnaire was administered to all South African tax practitioners that were registered with the South African Institute of Chartered Accounts (SAICA), the South African Institute of Professional Accountants (SAIPA) or the South African Institute of Certified Bookkeepers (SAICB), consequently no sample was selected and the entire population was used. The findings show that of all the taxes tested (income tax, provisional tax, Value Added Tax (VAT), PAYE), VAT appeared to be, on average, the most time consuming activity for tax practitioners,

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<sup>16</sup> Ritchie, K., Tran Nam, B., and Walpole, M. A. (1996) ‘A Report into the Incremental Costs of Taxpayer Compliance’.

<sup>17</sup> AUD\$32,389, adjusted for Australia’s inflation from 2012 to 2014 is AUD\$34,008 [\$36,388].

<sup>18</sup> The smallest sized businesses (turnover \$35,000 - \$74,999) had only two responses, where the largest (turnover of \$6,000,000 and over) had 48 responses, representing 1.3 and 30.2 per cent of the total sample, respectively.

spending 18.77 hours compared to 3.07 hours spent on income tax. The average fee practitioners charged their clients, to ensure that all their tax returns were prepared, completed and submitted, was R7,030<sup>19</sup> [\$773] per year. When the cost associated with tax compliance are represented as a percentage over turnover, smaller businesses (turnover R1 to R300,000) [\$0.11 to \$33,000] bear 11.5 per cent of the cost compared to the largest (turnover R6,000,000 to R14,000,000) [\$660,000 to \$1,540,000] who only bear 0.3 per cent cost. This preliminary study into the external compliance costs faced by small businesses in South Africa is consistent with other compliance studies.

Smulders, Stiglingh, Franzsen, and Fletcher (2012) provide more recent data to establish a baseline for further research within South Africa, as well as forming part of a larger international project involving other countries namely New Zealand (Gupta & Sawyer, 2015) and Australia (Lignier & Evans, 2012). On average, small businesses spent 255.1 hours on tax activities (including VAT, income tax, PAYE, Capital Gains Tax (CGT), customs, and excise duties) which contributes to the average total internal compliance cost of R53,357 [\$5,869] per year. The most time-consuming tax activity was found to be complying with VAT requirements. Seeking external tax compliance assistance costs were on average R9,982 [\$1,098] per year, which when compared to the earlier study (Smulders & Stiglingh, 2008) had only increased a minor amount when taking inflation into consideration of. The average combined cost of compliance was R63,328 [\$6,966] per year. The overall finding from this study provides further evidence supporting the fact that compliance costs are regressive in nature and that VAT/GST is the most significant.

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<sup>19</sup> R7,030, adjusted for South African inflation from 2008 to 2014 is R10,413 [\$1,145].

### *2.3.4 The United Kingdom*

Sandford et al. (1989) conducted an early study to evaluate the administrative and compliance costs of taxation in the UK. The majority of the data used in their study was gathered from four different surveys. Their study measured the costs incurred complying with VAT, PAYE and company tax. Results from the study show that compliance costs of all taxes fall disproportionately on smaller businesses, because small businesses (with turnover of up to £100,000 [\$207,000]) incurs an average cost of 3.66 per cent of turnover, compared to large businesses (turnover over £1 million[\$2,070,000]) which incur on average 0.17 per cent of turnover. VAT and PAYE were shown to be the most significant contributors to total compliance costs because information needed to be continuously recorded and tax paid frequently, whereas company taxes were assessed and paid annually.

Parallel studies of compliance costs have been undertaken by the Small Business Research Trust (SBRT) (1998; 1999; 2000, as cited in Chittenden et al. 2003).<sup>20</sup> In 1998, the SBRT conducted a study on the perceptions of VAT compliance costs. They found that businesses with lower turnovers experienced proportionally higher costs when compared with larger firms. When compared to the findings of Sandford et al. (1989), the compliance costs of VAT appear to have increased. However, the SBRT did not quantify the actual cost but relied on the perceptions of business owners, which could have led to overstatements and may not be directly comparable. Overall, the findings reinforced the existing evidence that suggests the disproportionate burden of compliance costs falling on small businesses.

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<sup>20</sup> Small Business Research Trust (1998) NatWest SBRT Quarterly Survey of Small Business; Small Business Research Trust (1999) NatWest SBRT Quarterly Survey of Small Business; Small Business Research Trust (2000) NatWest SBRT Quarterly Survey of Small Business.

In 1998, the UK Inland Revenue<sup>21</sup> (as cited in Chittenden et al. 2003) published a report on the compliance costs associated with PAYE. The research was structured in order to make it possible to compare its findings with those of the SBRT and Sandford et al. (1989). The findings of the UK Inland Revenue study showed that the estimates of PAYE compliance costs were similar to the findings in Sandford et al. (1989). This suggests that the compliance costs associated with PAYE had not decreased, and remained significant.

Chittenden, Kauser, and Poutziouris (2005) conducted a follow-up study on the compliance costs associated with PAYE and National Insurance Contributions (NIC).<sup>22</sup> Using questionnaires to estimate the compliance costs, the findings were similar to those of past studies such that the compliance costs were regressive. The authors suggest that the primary reason for the regressive nature of these costs is due to the number of hours that the business owners spend on PAYE. The smallest businesses were shown to spend the most time on PAYE, while delegating the least amount of work to other staff members. Upon further analysis, the authors estimated that the first employee, in terms of compliance costs, will cost a small business (employing between 10 and 49 employees) approximately £5.50<sup>23</sup> [\$11.39] per week, while a large company (over 50 employees) incurs less than 10 pence per week per employee. Thus, the regressivity of PAYE has not differed from prior studies.

Hansford and Hasseldine (2012) provide a recent study on the compliance costs faced by UK small businesses, as a part of a larger international project including New Zealand and Australia. Using a similar research methodology as Lignier & Evans (2012) and Gupta & Sawyer (2015), the authors find that average combined cost of compliance was

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<sup>21</sup> Inland Revenue (1998) The Tax Compliance Costs for Employers of PAYE and National Insurance in 1995-96.

<sup>22</sup> National Insurance Contributions are paid by employees and self-employed individuals to build up their entitlement to certain state benefits, including the State Pension.

<sup>23</sup> £5.50 adjusted for the UK inflation from 2005 to 2014 is £7.33 [\$15.17].

£21,362 [\$44,219]. However, the sample was slightly skewed to larger businesses, so interpretation of the results should be made with caution. When the compliance costs are scaled by the number of full time employees, the average cost of compliance decreased from £4,410 [\$9,128] (small firms are those with a turnover less than £600,000 [\$1,242,000]) to £361 [\$747] (large firms are those with a turnover greater than £6,500,000 [\$13,455,000]). Compliance with VAT requirements on average take up more than half the time spent on all taxes (including company tax, PAYE and CGT). Overall, the study supports existing literature that suggests the compliance costs of taxation are regressive and VAT requirements were the most costly from a time perspective.

### *2.3.5 The United States*

According to Slemrod and Venkatesh (2002), quantitative evidence about the compliance costs borne by businesses is limited in the US, as the majority of early compliance studies estimated the costs incurred by individuals. This study focuses on the compliance costs incurred by medium to large sized businesses (having at least USD\$5 million [\$6,850,000] in assets), so interpretation of the average total compliance cost may not be relevant for this study. However, Slemrod and Venkatesh presented data to show the regressive nature of compliance costs, as larger firms (USD\$100 million to USD\$250 million assets [\$137,000,000 to \$342,500,000]) with assets 10 to 50 times the size of a smaller firm (USD\$5 million to USD\$10 million assets [\$6,850,000 to \$13,700,000]) only incurred seven times the average amount of compliance costs spent by smaller firms. While this finding does not specifically deal with ‘smaller businesses’ like other studies, it does show that compliance costs are disproportionately borne by business which are smaller.

Donald, Greenland, Guyton, Hennessey, and Kindlon (2006) conducted one of the first small business focused compliance cost studies. The study used a survey to collect information about the income tax burden on small business. The average compliance cost of income tax was approximately USD\$2,266<sup>24</sup> [\$3,104], with an average of 255 hours spent per year on compliance activities. The smallest businesses in the sample (assets less than USD\$10,000 [\$13,700]) incurred USD\$4,769<sup>25</sup> [\$6,533] per employee, compared to the largest in the sample (assets over USD\$1 million [\$1,370,000]) incurring USD\$1,295<sup>26</sup> [\$1,774] per employee. Further analysis about the relationship between time and money shows that the time burden increases monotonically with size of money burden, and vice versa. This means that initiatives structured to reduce the amount of time spent on other compliance activities will also reduce the amount of money spent on compliance costs. Overall, the study provides more evidence to suggest that compliance costs are indeed regressive in the US.

### *2.2.6 Other Countries*

This section reviews different European and Asian countries that have conducted research on the compliance costs of businesses in their respective country to see what insights these countries provide.

Jrbashyan and Harutyunyan (2006) provide some evidence on the compliance costs of Armenia being regressive. The authors analysed the transaction costs of the taxes paid, in terms of sales volume and the number of employees. The general conclusion was that the transaction costs were more costly for small and medium sized business. Klun and Blazic (2005) provide an overview of compliance costs in Slovenia and Croatia. Their findings

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<sup>24</sup> USD\$2,266 adjusted for the US inflation from 2006 to 2014 is USD\$2,660 [\$3,644].

<sup>25</sup> USD\$4,769 adjusted for the US inflation from 2006 to 2014 is USD\$5,600 [\$7,672].

<sup>26</sup> USD\$1,744 adjusted for the US inflation from 2006 to 2014 is USD\$2,083 [\$2,853].

are consistent with past research, in that the costs of compliance are regressive. The compliance costs, as a percentage of total turnover, for small business was 3.73 per cent (Slovenia) and 3.42 per cent (Croatia), compared to large business incurring 0.08 per cent (Slovenia) and 0.09 per cent (Croatia). These findings are comparable to those of the studies in the preceding sections.

Ariff, Ismail, and Loh (1997) conducted a study on the compliance costs of Singapore. The authors divided their sample into three groups (small, medium or large entities) in order to determine whether the compliance costs were regressive. They find that the average combined cost of compliance was SGD\$27,446<sup>27</sup> [\$27,994] with small and medium sized entities incurred more external than internal costs. The authors suggest that smaller businesses normally lack in-house tax support because they incur fewer and less complex tax problems, so it is not cost efficient to employ specialised personnel. Overall, the costs are disproportionately borne by smaller entities, which is again consistent with the consensus that compliance costs are regressive. Chan, Cheung, Ariff, and Loh (1999) conducted a similar study in Hong Kong, using similar parameters as Ariff et al. (1997). The average combined total compliance cost is HKD\$346,483<sup>28</sup> [\$62,366]. This figure may seem large because the sample was slightly skewed to larger businesses. It appears that all sizes of businesses relied heavily on external assistance, which contradicts the finding in Ariff et al. (1997). The study was conducted in a different country, which could explain the inconsistency, despite following a similar research method. Finally, the authors explored the regressivity phenomenon and found that compliance costs tend to fall as sales increase.

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<sup>27</sup> SGD\$27,446, adjusted for inflation from 1997 to 2014 is SGD\$36,701 [\$37,435].

<sup>28</sup> An inflation adjusted figure was unable to be obtained reliably.

## 2.4 Summary

The overall findings from each country have shown that the disproportionate burden of compliance costs on small business continues to be an issue in almost every jurisdiction. From early studies to the most recent ones, the estimated compliance costs of business taxation have overall become increasingly regressive. Another major finding is the time spent on GST/VAT requirements has consistently taken up, for most jurisdictions, considered a greater proportion of the total time spent on tax compliance activities. This indicates that tax concessionary systems should include a focus on reducing the costs associated with GST/VAT filing (with the exception of the US that does not have a comprehensive GST/VAT).



# Chapter 3: Research Question, Design and Method

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## 3.1 Introduction

This chapter introduces the research questions and describe the methods used to answer these questions. The aim of this study is to add to the limited literature on small business tax regimes in New Zealand, as well as produce a discussion piece for further policy analysis and development. The nature of the research is therefore exploratory, so a qualitative approach will be used throughout the data collection process.

## 3.2 Research Questions

This research project has proposed two research questions:

*RQ1. What tax regimes are currently in place (or proposed) for small businesses, in a group of selected countries, to reduce the tax compliance burden of these businesses?*

*RQ2. Of the tax regimes (and specific provisions) implemented or proposed in these selected countries, which of them, if implemented, could be expected to reduce the compliance costs of taxation for small businesses in New Zealand?*

To answer the first research question, a series of case studies was used to present the specific tax regimes or concessions that each selected country have decided to implement (or proposed in the case of New Zealand). Documentary analysis was the method chosen to gather the information to write up each individual case study. Following on from that, the results of each case study will be subsequently analysed in order to extract the key

components (that is, small business tax concessions). The selected countries are New Zealand (the country with only a proposed regime), Australia, South Africa, the UK and the US. These countries have been selected because they have introduced (or proposed) a specific regime or concessions targeted towards smaller businesses that aims to simplify the tax system for them. In addition, they are all English-speaking countries with similar tax structures compared to New Zealand. As a part of the author's prior research Australia and the UK's systems in comparison to the current New Zealand practice and the proposed regime, has been undertaken. This thesis aims to build on top of the author's existing work by analysing more countries.

The second research question was answered through a series of interviews with tax professionals. Once each country has been analysed, the key concessions will be set out in a list. The concession list was presented to the tax professionals, to enable them to give their opinions on whether those concessions are viable in a New Zealand tax regime to help reduce the compliance cost burden of small businesses. Moreover, the interviews intend to gauge different thoughts as to how New Zealand should proceed in terms of future policy development and possible changes to the role of accountants in assisting small businesses.

The following sections describe the research framework and methods used to answer the research questions.

### **3.3 Theoretical Framework**

The ontological viewpoint in this thesis is based on normative theory, as well as using a positivist analysis, in terms of examining the existing tax regimes. El Kharbili and Stolarski (2009) explain that normative ontology allows the researcher to model policy-

based regulations for creating new norms and rules. Using this theoretical framework, the results of this project can be used to develop and prescribe a set of standards that could be expected to reduce the compliance costs of small business. The methodology chosen for this research project is qualitative. McKerchar (2010) explains that qualitative methodology leads strongly to subjective rather than an objective reality. As explained above, the research project is exploratory in nature, so using qualitative information would be better suited in developing a foundation than quantitative data. Quantitative research requires a sample that is statistically representative of the population to be studied in order to establish generalisability. However, in qualitative research, a variety of participants are selected on the basis of their relation to the research topic, which is to enable meaningful differences in experiences to be captured (King and Horrocks, 2010). A normative approach will be used to evaluate the information from the interviews with the objective of providing recommendations as a result.

### **3.4 Research Methods**

The research questions proposed for this thesis were answered using the following research methods.

#### ***3.4.1 Case Study Analysis***

The study utilises a comparative case study analysis of the five selected countries, which have either implemented or proposed a regime for small business to combat the regressivity of compliance costs. Yin (2009, p. 4) describes case study research method as, “allowing investigators to retain the holistic and meaningful characteristics of real-life events”. In this case, it will involve the aspects of each regime or proposal. Exploratory research usually means that the research is in the preliminary stage, so there may be

difficulties in finding data. McKerchar (2010, p. 94) describes that, “a case study generally involves a researcher undertaking an in-depth exploration of a programme, an event, or a process concerning one or more individuals”. In this thesis, two types of case studies will be used, micro and macro. In the micro case studies, the ‘individual’ is each selected country that has implemented or proposed a small business tax regime. For the macro case study, comparisons will be drawn from the individual cases to provide a comparative analysis.

The subjects of the each micro case study have been carefully selected through a process of preliminary research. The process involved finding countries that had, specifically, a tax regime or concessions designed for smaller businesses. Moreover, countries were further filtered by their tax structures’ similarity to New Zealand, whether they were English-speaking countries, and more importantly, whether information was publicly available and able to be obtained. The prior research yielded five countries: New Zealand, Australia, South Africa, the UK and the US. As a precautionary note, this is not an exhaustive list, and there are potentially other countries that may provide the similar, if not, better information. However, as the research is in its exploratory stage, grasping an idea of what is currently available or proposed should be sufficient in building a foundation for further research.

Once the individual cases have been written up, the next step is to analyse them collectively. A comparative macro case study will draw out and aggregate the concessions and provisions offered to small business taxpayers. Zweigert and Kötz (1998) explain that comparative law studies make comparisons of different legal systems of the world. Furthermore, Thuronyi (2003) suggests that a country’s tax policy can benefit from comparative studies, particularly by learning from different countries’ experiences of implementing a similar regime. As explained above, the primary purpose of the

comparison is to draw out similarities and differences, in terms of tax concessions. The result of the macro case study will produce a list, which will then be used in the interviews with the tax professionals, where opinions and ideas can be shared and the list evaluated.

### *3.4.2 Documentary Analysis*

Mogalakwe (2006) describes documentary analysis as an analysis of documents that contains information about a phenomenon the researcher wishes to study. Any ‘written text’ can be considered a document, with the main sources of documents able to be found in ministerial and departmental libraries, newspapers and databases. According to Mogalakwe, this method is just as good and more cost efficient than social surveys or in-depth interviews. This is particularly important as the study requires information from several countries overseas. It would be expensive and impractical to travel to each country in order to collect data about each regime. Information for each regime can be collected through various sources, such as journal articles, legislation, governmental official reports, websites, online papers, media coverage, and statements made by professional bodies.

While the benefits of documentary analysis were explained above, using this method has its limitations, the main one being that it is not possible to find and include every document about the regimes. Mogalakwe (2006) explains there is just too much information, especially now in the era of the information superhighway. The ever increasing amount of information places an extra burden on the user of documentary sources, especially when it comes to establishing their authenticity and credibility. One way to mitigate the risk of omitting important documents is to be diligent when collecting

data, such as revisiting relevant data sources will ensure coverage of new information that comes to light.

### ***3.4.3 Interviews***

The last research method used in this project will be utilising semi-structured interviews on several tax professionals who have shown interest in small business taxation. As the project is exploratory in nature, semi-structured interviews is believed to be the most appropriate method to gather more depth answers, which would allow greater exploration of the subject matter. The study does not look to generalise the population, so a survey method would not be appropriate. Bryman and Bell (2011) explains that an interview places a greater emphasis on the interviewees' point-of-view and opinions on the subject matter. Semi-structured interviews tend to be more flexible in terms of the flow of the interview than structured interviews, meaning that follow-up questions could arise as a result of the interviewee's responses (King and Horrocks, 2010). Semi-structured interviews also differ from structured interviews as an 'interview guide' will be used instead of a set of fixed questions in a predetermined order. The 'interview guide' contains a set of open-ended questions, or 'probing questions', and topics that would like to be covered in the interview (King and Horrocks, 2010). Due to the open-endedness of some questions, the interviewee may lead the discussion into unanticipated directions, which could introduce new ideas or answer following-on questions in the process. This method provides the best fit for this type of research, as the aim is to establish a foundation for future research on small business tax regimes.

The subjects for interviews are determined, by first undergoing some preliminary research to seek appropriate 'tax professionals'. King and Horrocks (2010) refer to this type of sampling as purposive, which means that chosen dimensions and categories will

determine the suitability of the candidate. This project defines, ‘tax professionals’ as those with many years of experience<sup>29</sup> working in tax within New Zealand. King and Horrocks (2010) further explain that qualitative research seeks diversity in the participants in order to throw light on meaningful differences in experience. For this study, a mixture of tax practitioners in small to medium sized accounting firms, and members of various tax advisory bodies will be selected. The preliminary research hopes to select those tax professionals that work closely with smaller businesses. While they may not be representative of the tax profession in New Zealand, the views of these representatives may give a better understanding of the needs of small business in terms of designing a tax regime to reduce their compliance costs.

(Guest, Bunce, & Johnson, 2006) suggests that interview research should have a minimum of twelve participants, but if the participants are highly homogenous then a sample of six would be sufficient. It is intended that six tax professionals will be recruited for interviewing in this study. Eriksson & Kovalainen (2008) argue that qualitative interviews need not be very long, stating that 30 minutes is enough, but can be longer to facilitate more in-depth answers. It is expected each interview to be between 30 to 40 minutes to ensure all topics are discussed, while having enough time to accommodate richer information gathering.

#### *3.4.4 Telephone Interviews*

The subjects recruited for this thesis were not limited to the location of the researcher, in this case, Christchurch. A mixture of face-to-face and remote interviewing is used in this thesis. King and Horrocks (2010) suggest using remote interviewing for three reasons: physical distance from the participants, availability of participants, and the nature of the

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<sup>29</sup> Years of experience can be viewed as those having higher positions in their respective firms or role as an external advisor.

interview topic. As the tax professionals are recruited based on their knowledge and expertise on the topic, rather than their location, remote interviewing is an inexpensive and less time consuming method of incorporating valuable participants in this research.

King and Horrocks (2010) raise concerns about the quality of telephone interviews as there is a potential that the participants may misunderstand the nature of the interaction. The concerns stem from the perception, in literature, that telephone interviews are usually similar to structured surveys (King and Horrocks, 2010, p. 81). However, these concerns can be mitigated by explaining carefully to the potential participants what is expected during the interview. Information sheets and consent forms that contain information about the length of the interview were sent to those that expressed interest in participating in the study. This reinforces the point that a detailed discussion of the participants' views and experiences on the subject is expected, similar to a face-to-face qualitative interview.



# Chapter 4: Small Business Tax Regime Review

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## 4.1 Introduction

A large body of literature has shown that the compliance costs of taxation are regressive, due to its ‘fixed-cost’ nature, which particularly disadvantages smaller businesses compared to larger ones, and thus has led to calls for compensation for small business (Pope, 2008). This chapter will answers the first research question:

*RQ1. What tax regimes are currently in place (or proposed) for small businesses, in a group of selected countries, to reduce the tax compliance burden of these businesses?*

A review of the five selected countries, first individually then collectively, in the order<sup>30</sup> of New Zealand, Australia, South Africa, the UK and the US. As explained above, these countries have either implemented a simpler tax system for smaller businesses or one has been proposed. While the focus of each case study is to extract important concessions and provisions from each regime, it also explores the successes and criticisms experienced with the particular regimes implementation. This will give better insight into how a system should be structured for New Zealand.

## 4.2 New Zealand

The first country explored is New Zealand, as currently no comprehensive tax regime has yet been designed for smaller businesses. By and large New Zealand operates a tax system on a one-size-fits-all approach, with some concessions for smaller businesses,

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<sup>30</sup> Aside from New Zealand the countries will be discussed in alphabetical order, as New Zealand will be the focus of this research.

namely \$500 capital asset write-off, removal of stocktakes from some businesses, and claimable pre-trade legal expenses. According the Budget of 2014 (KPMG, 2014), there will be simplified financial reporting requirements for “non-large”<sup>31</sup> businesses, meaning that these businesses will no longer be required to prepare general purpose audited accounts. This change may have an effect for those sitting on the ‘border’ of the thresholds, but for the smaller to the smallest businesses, there will be no effect, as they were not previously required to produce audited accounts. However, special purpose (albeit simplified) accounts are still required for tax purposes.

While there have not been any significant changes to help lower their compliance costs, proposals for a simplification regime have recently been put forward by NZICA and TMNZ. Their initial discussion document *Simplifying the Taxation of Small Business in New Zealand SME Tax: One Hour per Month* released in 2009 (the 2009 proposal), is one of the first document in New Zealand that proposes a comprehensive to reduce the regressivity of tax compliance costs for small business. The proposed concessionary regime was based on the principles of simplicity, proportionality, certainty, and trade-offs which favour compliance friendliness, neutrality, and fairness (NZICA & TMNZ, 2009, p. 2). The document intended to create a baseline for further discussion, which led to a revised proposal in 2012 that adopted changes as suggested from the feedback.

#### **4.2.1 Entry Thresholds**

The proposed regime would divide small businesses into two distinct groups based on the turnover and the number of employees. In order to be eligible for the regime, a business must meet the following:

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<sup>31</sup> Business with a turnover of less than \$30 million or assets of less than \$60 million.

***Table 1: Eligibility thresholds 2009***

	Micro Business	Small Business
Level of turnover less than	\$60,000	\$1,200,000
Number of employees	No employees	Does not specify

The entry threshold for micro business is the same as the threshold for GST registration. ‘Micro Business’ targets the smallest businesses and business start-ups. For that reason, these businesses must operate as either a sole trader or partnership and are not allowed to have employees. This system seeks to encourage more people with innovative ideas to enter the business world by removing a major component from the many barriers of entry. Furthermore, the micro business system also aims to incentivise businesses that derive income “under the table”<sup>32</sup> to fully meet their tax obligations by offering a simplified system and no penalty to any undeclared income prior to joining the system. Where business turnover fluctuates around the \$60,000 threshold, a 40 per cent safe harbour (\$84,000 turnover per year/\$7,000 per month) prevents businesses from entering the system one year and then leave the next. When businesses grow beyond that safe harbour, they can transition to the ‘Small Business’ category, which has a different set of concessions and requirements.

The threshold to enter the system as a “Small Business” requires that the business has a turnover of less than \$1.2 million, in other words, established businesses with an active business income, while having no restrictions on the form of business structure. In addition, small businesses are able to have employees with no barrier of entry. The system hopes to substantially simplify taxation of income tax and fringe benefit tax by effectively putting the business on a cash accounting basis. Again, the thresholds allow

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<sup>32</sup> “Under the table” refers to transactions that operate on usually a cash basis, which in turn does not get declared to the IRD.

for a safe harbour of 40 per cent (\$1.68 million or \$140,000 per month) before having to leave the system, and adhere to the normal tax rules.

A follow-up discussion document was released in 2012, which revised the initial 2009 on the basis of criticisms and suggestions made from submissions, which, among other changes, lowered the upper turnover threshold for ‘small business’ to \$600,000. The safe harbour 40 per cent (\$840,000 or \$70,000 per month) was retained to allow for fluctuations in turnover per year. Employee numbers have not been addressed in determining small business taxpayers, even with the subsequent revised version of the proposal. Table 2 presents the thresholds from the revised 2012 proposal.

***Table 2: Eligibility thresholds 2012***

	Micro Business	Small Business
Level of turnover less than	\$60,000	\$600,000
Number of employees	No employees	Does not specify

#### ***4.2.2 Concessions offered***

As explained above, the NZICA and TMNZ proposed system distinguishes a between micro and a small business taxpayer, which means the concessions offered for each taxpayer group will be different. The following section first discusses the concessions offered to micro businesses and then for small businesses.

##### **4.2.2.1 Micro Business**

Initially the 2009 proposal, businesses that met the threshold of a micro business would be entitled to a final income tax rate of 15 per cent on gross turnover, which could be paid

monthly, or at any time. The 15 per cent includes a component of ACC levies,<sup>33</sup> and all income would be transferred to the taxpayer's (the business owner) summary of earnings and no further tax would be applicable on this business income. Another proposed feature included a transitional rule for people who earned cash 'under the table', which allowed them to enter the tax regime without further consequences from past year's earnings from undeclared income.

The revised version (the 2012 proposal) brought forth a change to the initial proposed final income tax rate of 15 per cent on gross turnover across the board, to 7 per cent for businesses primarily dealing in goods and 14 per cent for all other businesses. The initial 15 per cent was criticised as being too high, especially for those that traded in goods because it did not allow for the costs of purchases. While this change addressed the 'over-taxing' at predominantly trading taxpayers, there may be some definitional issues arising when it comes to determining whether a business deals primarily in goods or services. Also, this change provides an incentive to classify as dealing in goods.

The key concessions of the proposed micro business regime were:

- Different tax rates: Businesses would be able to calculate their income tax on a single flat rate; and
- Timing of payments: Businesses could file their returns at a more convenient time.

#### **4.2.2.2 Small Business**

From the initial proposal to the more recent revised version, the only change to the small business regime was the threshold for entry. Businesses that meet the threshold of a small business would be entitled to calculate income tax and GST on a simplified cash basis. As

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<sup>33</sup> ACC is New Zealand's accident compensation scheme, which covers no-fault injury cover for all New Zealand residents and visitors. ACC is levied from New Zealand taxpayers at the source of their income. For more information <http://www.acc.co.nz/about-acc/overview-of-acc/introduction-to-acc/index.htm>.

a result of using, in essence, a payments basis to calculate income tax, GST and income payment dates could be merged. It is envisioned that income tax and GST would be paid two-monthly to avoid end of year total calculations, which also reduces the stress on cash flow at the end of the year. Consequentially, removing the need for end of year square ups mean that:

- there is no need for end of year stocktakes;
- depreciation on most assets (except land) can be deducted at purchase;
- losses can be recognised earlier (carried back or forward, or refunded);
- payment of provisional tax is removed, there is no fringe benefit tax and entertainment taxes;
- no shareholder salaries issues (for example occurred in *Penny and Hooper*)<sup>34</sup>; and
- social assistance and student loan obligations are also aligned with income tax payments.

Businesses that currently operate as companies and partnerships, but are eligible for the small business regime, would be taxed similarly to a sole trader, which is based on the personal marginal tax rate structure.

In addition, the proposed small business system would inherently overwrite some existing tax concessions, such as the \$500 immediate write-off of low-value assets (Inland Revenue Department, 2004). The \$10,000 closing stock valuation exemption *Section EB 23* of the *Income Tax Act 2007* will also be removed. The overwrite these tax laws, would only be applicable for small businesses, not for all businesses.

The key concessions of the proposed small business regime were:

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<sup>34</sup> A New Zealand tax law case where the two surgeons held their business as a company because company taxes were lower than personal marginal rates. As a result, each party gave themselves an artificially low income, which was eventually deemed to be a tax avoidance arrangement.

- Cash accounting: Using cash receipts and payments to determine taxable income;
  - Simpler depreciation: Removing depreciation for these businesses as they can be deducted at the time of purchase;
  - Timing of payments: Businesses may file their returns at a more convenient time.
- For this regime, there is an alignment with GST payments; and
- Trading stock: The need to conduct yearly stock takes is removed.

#### ***4.2.3 Summary of Responses to the Proposals***

There has been limited published response on the proposals. The New Zealand Institute of Chartered Accountants (2012a) published an article titled *Member Response*, which looked at the issues and concerns of the chartered accountants. The main concerns about the proposed regime include: compromise of professional services; increased complexity from ‘tinkering and modifying’; additional workload for chartered accountants; and complications that could arise when different taxpayers use different tax systems. Cooper (1993) published work in Australia, suggests that tweaks and changes to existing tax laws for the purpose of reducing complexity, does not in fact reduce complexity, but tend to increase confusion among taxpayers.

In contrast, another article published by the New Zealand Institute of Chartered Accountants (2012b) gauged the responses from the media,<sup>35</sup> which appear to show support in favour for the proposals. Common themes that arose from the media sources include the belief that the new regime will eliminate the basic accountancy needs of a business; reductions in time spent filing tax returns; and encourage more people to start their own business. It is interesting to find that the opinions of practitioners differ significantly to those of the media. There could be many factors that lead to the difference

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<sup>35</sup> Media sources include: ‘NZ Herald’, ‘Manawatu Standard’, ‘Stuff.co.nz’, ‘Scoop’, ‘Radio NZ morning news’, ‘TVNZ Breakfast’, ‘Interest.co.nz’, ‘NBR’. These are various news providers in New Zealand.

in opinions, but a major argument against having a regime for small, from an accountant's standpoint, could be the fear of losing clients and future clients. However, as this is only a proposal, at this stage, an evaluation of its effectiveness in reducing compliance costs for smaller businesses, and its impact on accounting services is speculative.

## 4.3 Australia

Australia has had many years of experience with small business tax concessionary regimes, as having two regimes. In 2001,<sup>36</sup> the first small business tax regime, known as the Simplified Tax System (STS), was introduced and implemented through legislation. However, this was subsequently replaced in 2007<sup>37</sup> by amending legislation, now known as Small Business Entity (SBE) regime. Australia attempted to simplify its tax system by using these regimes in with the object of to reducing compliance costs for small businesses. The regimes will be discussed independently to compare and see how the regime has developed and adapted to the problems faced.

### 4.3.1 The Simplified Tax System

From July 1 2001, a new tax regime was introduced for small businesses (not including individuals) in Australia. The Review of Business Taxation (RBT) submitted a report on the recommendations to the Australian Treasury in October 1999, which included a new tax regime for small businesses (Ralph et al., 1999). Ralph et al. explained that the STS was introduced for smaller businesses to help relieve some of the compliance burden associated with business taxes. This was very important because at this time GST had been introduced into Australia, and the STS hoped to make the transition for smaller businesses easier. The STS was introduced as the *New Business Tax System (Simplified*

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<sup>36</sup> New Business Tax System (Simplified Tax System) Bill 2001.

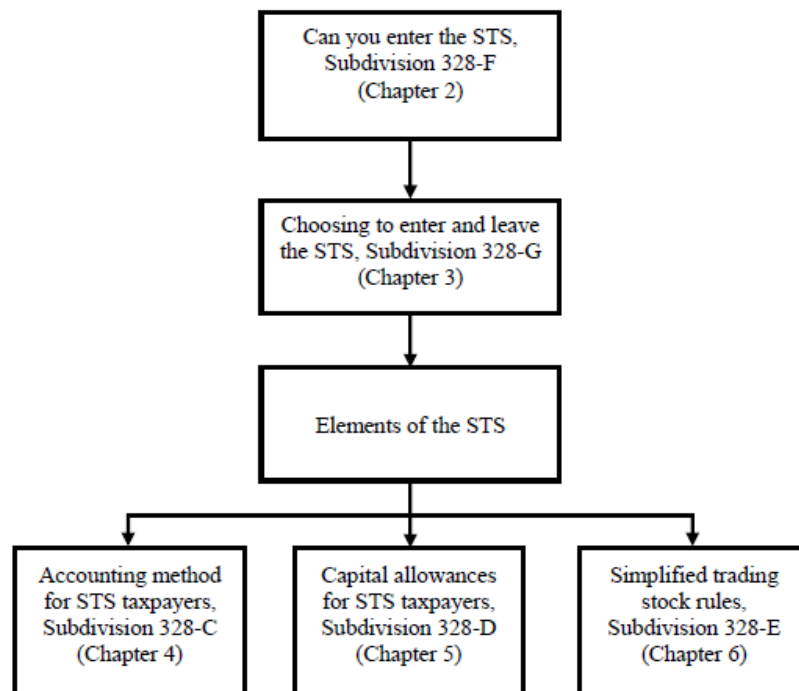
<sup>37</sup> Enacted in the Tax Laws Amendment (Small Business) Bill 2007.



*Tax System) Act 2001*,<sup>38</sup> which amended some sections in the *Income Tax Assessment Act 1997* (ITAA).

#### 4.3.1.1 Entry Thresholds

**Diagram 1: Shows how the STS rules relate to each other**<sup>39</sup>



As shown on Diagram 1, *Subdivision 328-F* of the *ITTA 1997* outlines the thresholds for a business to be eligible to enter the STS for a year of income, if it carries on a business in that year, and has the following:

**Table 3: Eligibility thresholds to enter the STS 2001**

Average level of turnover less than	AUD\$1 million
Depreciable assets less than	AUD\$3 million

<sup>38</sup> New Business Tax System (Simplified Tax System) Bill 2001 received its royal assent since 1 January 2001.

<sup>39</sup> *Schedule 1, item 1, subdivision 328-A* of the *ITTA 1997*

The STS requires businesses to have an average turnover of less than AUD\$1 million [\$1,070,000] and depreciable assets less than AUD\$3 million [\$3,210,000], as shown on Table 3. The average turnover is calculated on either the current year's turnover or using any three of the last four years. The inclusion of the depreciable assets threshold is to restrict businesses with low turnover, high capital asset investments to enter the STS. The RBT estimated that 95 per cent of all business in Australia would be eligible to adopt the STS (Ralph et al., 1999).

The system was optional for those that meet the thresholds. However, if a taxpayer decided to, voluntarily, exit the regime, then, the taxpayer could not re-enter the regime until at least five years after the exit year, under *Subdivision 328-G*. There are no restrictions to those that cease to be eligible for the STS, and where they become eligible again, can re-enter the system. This restriction was implemented to stop those taking advantage of the STS by entering and leaving on a frequent basis.

According to the 2006-07 Annual Budget, there were concerns about the complexity associated with a range of small business definitions in the tax law (Banks Taskforce, 2006). As a result, the STS eligibility requirements were based solely on turnover and AUD\$3 million [\$3,210,000] asset threshold no longer applied. However, the upper turnover threshold was increased to AUD\$2 million [\$2,140,000] from AUD\$1 million [\$1,070,000] to capture an even larger population of business.

#### **4.3.1.2 Concessions Offered**

Organisations eligible for the STS are allowed to use cash accounting, simpler depreciation methods and simpler trading stock requirements to determine their taxable income for the year, as shown on Diagram 1. The STS is offered to businesses as a 'package', meaning that those businesses that are eligible, and choose to enter the STS,

must adhere to all aspects (Tretola, 2007). Businesses are not be allowed to ‘pick and choose’ the concessions as they please.

*Subdivision 328-C* outlines the accounting method for STS taxpayers. In essence, the taxpayers calculate their taxable income using cash accounting; that is, income is recorded when it is received and deductions accounted for when they are paid. It was believed that the cash accounting method for income provides a greater alignment with the cash accounting for GST.

*Subdivision 328-D* describes the simpler depreciation methods for STS taxpayers. Depreciating assets costing less than AUD\$1,000 [\$1,070] can be written off immediately and claimed as a deduction for the year in which the asset was first used. Depreciable assets costing more than AUD\$1,000 with an effective life of less than 25 years, are pooled and depreciated at a diminishing value rate of 30 per cent. Lastly, depreciable assets costing more than AUD\$1,000 with an effective life of more than 25 years are pooled and depreciated at a diminishing value rate of 5 per cent. Table 4 sets out this information. If the taxpayer decides to leave the STS, any pooled assets would continue to use the same rules, while newly acquired assets will need to be kept separate and depreciated using standard rules.

***Table 4: Simpler depreciation offered to STS taxpayers***

Useful life/Asset cost	Less than AUD\$1,000	More than AUD\$1,000
Less than 25 year life	Written off	Pooled at 30% diminishing rate
More than 25 year life	Written off	Pooled at 5% diminishing rate

The last major concession offered to STS taxpayers is the simplified trading stock requirements, as outlined in *Subdivision 328-E*. This concession modifies the existing

laws on trading stock requirements for those parts of the STS. An adjustment is made to either assessable income or deductions, so if the value of trading stock on hand at the start of the year is greater than the value at the end of the year, then a deduction is allowed for the excess. By contrast, where the value of trading stock at the start of the year is less than the trading stock at the end of the year, then an amount is included in assessable income equal to the excess.

The RBT assessed the impact of their recommendations with a Regulatory Impact Statement (RIS) (Costello, 2001). The assessment reviewed potential compliance, administrative and economic impacts of their recommendations in the Bill.<sup>40</sup> It was assumed that businesses eligible for the regime would indeed enter it; therefore 95 per cent of all businesses in Australia would be affected. The first RIS considered the impact that the STS would have on compliance costs. As explained above, the introduction of the STS had the intention of reducing compliance costs for users of the STS. The cash accounting rules were expected to reduce compliance costs, as users will not be required to use time-consuming accrual accounting rules. The extent that simplified depreciation rules would reduce compliance costs would be dependent of the amount of capital assets held by the STS taxpayer, it was expected that these rules would at least reduce the number of calculations required. As for the simplified trading stock requirements, if the user could reasonably estimate the difference in value from the start to the end, then this would be beneficial in reducing compliance costs. Overall, the RBT believed that the STS would free up time for small businesses to focus on their day-to-day operations.

The key concessions of this regime are:

- Cash accounting: Using cash receipts and payments to determine taxable income;

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<sup>40</sup> New Business Tax System (Simplified Tax System) Bill 2001.

- Simpler depreciation: An instant write off for assets up to a certain cost, while all assets are pooled with other similar life assets and depreciated at a standard rate; and
- Trading stock: Easier assessment for excess deductions or taxable income.

#### **4.3.1.3 Summary of Responses to the Simplified Tax System**

The implementation of the STS for Australian businesses received a lot of criticism, while yielding minimal positive feedback. This section presents some of the comments made about the STS.

Dirkis and Bondfield (2004) argued that the RBT did not accurately consider the impact of the compliance costs on small businesses, and with the introduction of GST in July 2000, the STS overall proved to be inadequate to compensate for the regressivity of compliance costs of the GST. Furthermore, the authors provided two reasons as to why it failed, the first being that there was no compelling argument put forward for the STS at its introduction and the rules were poorly designed. They believed that there was no clear connection for why the reduction of business taxes would be ‘the answer’ to compensate small businesses for regressive compliance costs.

McKerchar (2007) critically analysed the operation and impact of the STS from its inception to 2006. The average turnover threshold caused a problem when it came to ‘grouped entities’, where the average turnover is to be calculated in any three of the last four years of operation. Where a business has not operated for more than four years, then the average will be calculated from the number of years it has operated. The provisions used to calculate the average turnover appear to be simple, but McKerchar argued that this was not the case, as evidenced by the length of the provisions (33 pages). Moreover, the inclusion of ‘grouped entities’ undoubtedly further complicated the calculation. As

stated above, the Australian 2006-07 Budget increased the STS turnover threshold from AUD\$1 million to AUD\$2 million, while removing the asset test. McKerchar questions whether these integrity measures were necessary, as the percentage of business outside the proposed threshold would be minute (McKerchar, 2007, p. 142).

McKerchar (2007) is also sceptical about the cash accounting provisions providing any benefit for those that used accrual accounting to keep track of their creditors and debtors prior to the introduction of the STS. At the time of implementation, all concessions and provisions of the regime had to be used, due to the 'package' concept. Mandatory use of cash accounting was seen to deter a lot of eligible users into the system. Low take-up rates were a feature in the early years of the STS, with only 14 per cent of eligible taxpayers opting to use the STS by the end of 2002, providing some evidence to suggest mandatory provisions were unfavourable. In response to the low take-up rate, *Subdivision 328-C ITTA 1997* removed the mandatory cash accounting provision, so taxpayers that decided to enter the STS, from July 2005 onwards, were allowed to use the appropriate method of accounting that would give a 'substantially correct reflex of the taxpayer's true income' (Tretola, 2007, p. 4). In other words, the appropriateness of an accounting method could be determined by the nature of the business, for example, a business that deals primarily in goods would be expected to use accrual accounting, and those dealing in services would be expected to use cash accounting. Taxpayers, who entered the STS prior to July 2005, had the option to choose which method they preferred. A consequence of the repeal was to add a provision to suspend the re-entry rule of five years for those who exited the regime. It was assumed that those taxpayers had left the regime because cash accounting was inappropriate for the nature of their business. With the removal of mandatory use of cash accounting, the STS saw an increased take-up rate from 14 per cent to 25-30 per cent (Tretola, 2007). This suggests that mandatory accounting was an

issue for some, but there remained a large number of taxpayers who did not take up the STS regime compared to the size of the sector.

McKerchar (2007) further believed that simpler depreciation could increase complexity, and the simplified stocktake requirements were helpful depending on the taxpayers' record keeping abilities. She suggests that leaving the regime would cause massive complexity issues, whereby the taxpayer must depreciate any pooled assets at the same rate, while newly acquired assets will need to be kept separate. This introduces complications for taxpayers because they need to maintain at least two distinct capital allowance systems for bookkeeping purposes. In terms of the new stocktake rules, the business owner needed to estimate 'reasonably' the difference in stock. However, reliable and accurate bookkeeping is required in order to meet those requirements; this may increase the time spent on bookkeeping activities, which in turn increases compliance costs.

Overall, McKerchar (2007) believed that the STS regime was not simple, as the STS's eligibility criteria and its mandatory depreciable asset provisions, were unnecessarily complex. She argues that the STS failed to reduce the effective tax burdens in terms of tax savings or a reduction in compliance costs. The STS has been labelled as a 'system within a system' and one that had not been developed with sufficient debate or research. In fact, the STS has increased the compliance burden, where taxpayers must calculate their financial position every year to determine whether they are still eligible. Many taxpayers will need to seek professional advice to determine whether to continue to meet the eligibility requirements, or whether it would be simpler to remain outside of the STS. McKerchar further suggests that the constant change to the provisions (for example, removal of the mandatory cash accounting) has an impact on taxpayers and tax

practitioners. Bondfield (2002a) describes this impact as ‘change fatigue’, but the extent of the impact on taxpayers is unknown.

Dirkis and Bondfield (2002) and Tretola (2007) both agree that the STS rules were poorly designed, and claim that the STS had, effectively, added a further layer of policies on top of existing policies. Bondfield (2002b, p. 252) describes this as, “in effect a separate concessional regime within a large complex system”. Merely adding concessions on top of an existing tax system does not simplify the law; in fact, it becomes more complex. Therefore, small businesses, who were eligible and who elected to use the STS, would have further complicated their filing process.

In their study, Tran-Nam and Glover (2002) found that there was widespread ignorance of the STS with participants unaware that it existed, while others confused it with another form of taxation, such as GST. The authors found that businesses that had already employed cash accounting for GST purposes would consider the STS as an option, though the decision to adopt the regime would be in the hands of their accountants. The authors sought the opinions of accountants and tax advisors, and found that they would not recommend the STS to most of their small business clients. It was believed that businesses having already reported on a cash basis, having high value creditors and low value debtors, while maintaining low levels of depreciable assets, would be unsuitable for the STS. This claim contradicts the RBT’s view that the STS would compensate small businesses affected by the tax reforms. Furthermore, it appears that there were some people had been misinformed about the STS, which could be a factor affecting the low take-up rates.

While Tran-Nam and Glover (2002) found that there were minor benefits arising from the STS, the perception of the respondents (business owners) indicated that the new tax



system was “good for Australia”. This view contradicts the view of Dirkis and Bondfield (2004) and Tretola (2007), who believed that the STS had not been beneficial in simplifying the tax system or reducing compliance costs. Tretola (2007) further argued that the STS would not have any benefit for small businesses that already used cash accounting. The contrary finding from Tran-Nam and Glover (2002) may be due to the relatively small sample size and the business characteristics of the sample, as 23 of the 25 small business studied already used cash accounting in their business before being introduced to the STS, and continued to do so after the regime was in place.

In summary, the STS did not seem to help small businesses with their compliance costs; however, it should be noted that Australia had recognised that there needed to be a change for smaller businesses, in terms of taxation, and implemented a regime with the intention to reduce compliance costs.

#### ***4.3.2 Small Business Entity Regime***

Due to the low take-up rate of the STS, the Australian Prime Minister and Australian the Treasury appointed a taskforce, in October 2005, to investigate practical options for reducing the compliance burden on businesses from government regulation. The Banks Taskforce (2006) published a report of 178 recommendations to reduce the compliance costs of regulatory burdens. The recommendations for small business from the Banks Taskforce were reflected in the *Tax Laws Amendment (Small Business) Act 2007*. In 2007, the STS was replaced with a new concessionary regime known as the ‘Small Business Entity’ regime. The amendment Act amends *Division 328* of the *ITAA 1997*, which replaces the STS and introduces SBEs. According to Kenny (2008) the SBE regime was designed to fix the problems that occurred in the STS.

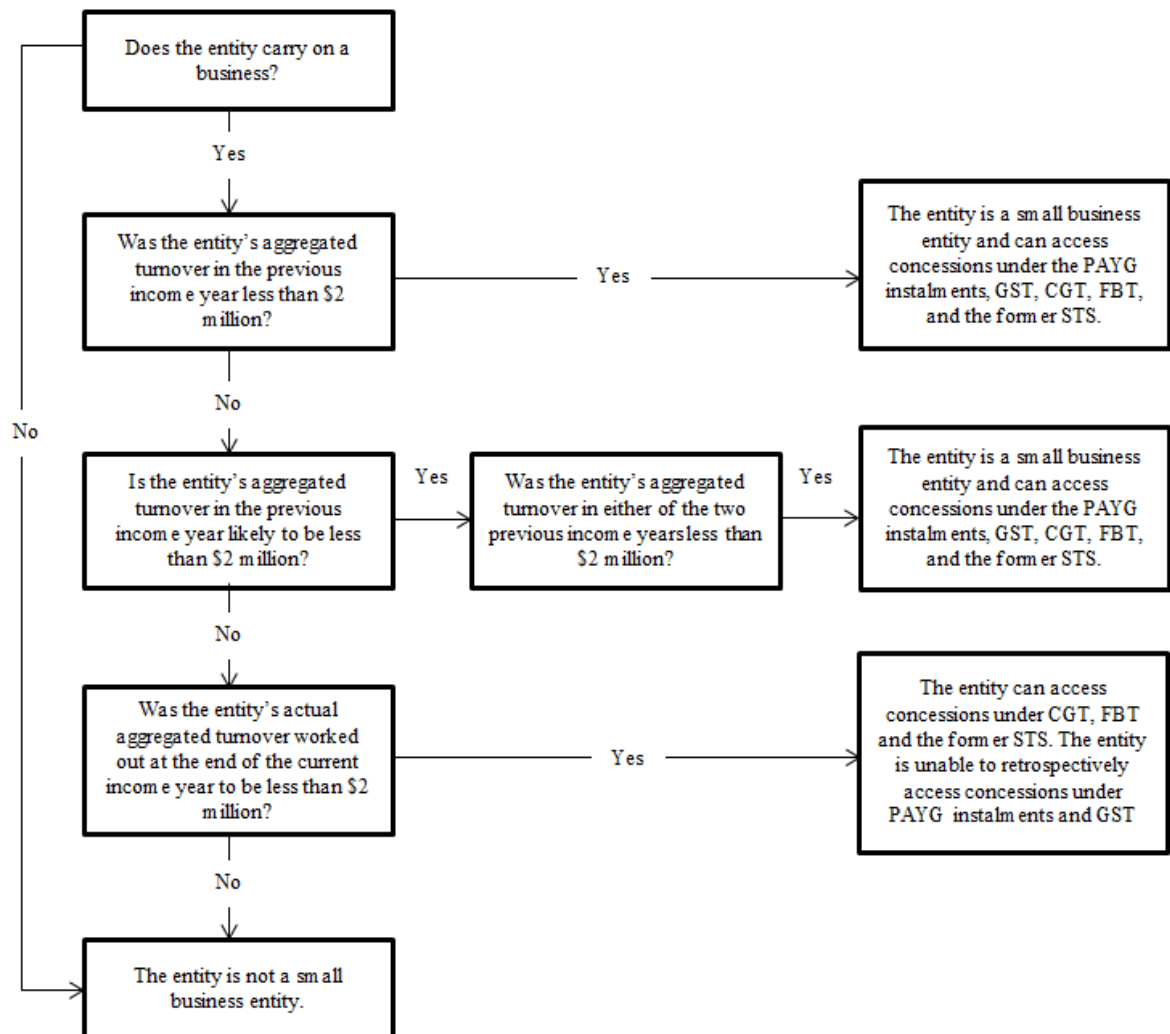
#### 4.3.2.1 Entry Thresholds

As the SBE regime stems from the STS, many of aspects remained the same as the STS. The eligibility turnover thresholds remained the same from the last amendment in 2005, which had increased the thresholds from AUD\$1 million [\$1,070,000] to AUD\$2 million [\$2,140,000]. Similarly, the AUD\$3 million [\$3,210,000] depreciable asset test was not included in the eligibility test, in order to keep things as simple as possible. The increase in the turnover threshold means that even larger ‘small’ businesses would be able to enter the SBE regime. Kenny (2008) questions whether the system is still equitable towards small businesses, as larger ‘small’ businesses will benefit the most from the SBE regime. Diagram 2 presents the flow chart used to check eligibility into the SBE regime.

*Diagram 2: Flow chart to determine whether an entity is a Small Business Entity<sup>41</sup>*

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<sup>41</sup> Diagram 1.1 from Explanatory Memorandum of the Tax Laws Amendment (Small Business) Bill 2007.



#### 4.3.2.2 Concessions Offered

The tax concessions that were available in the STS (cash accounting, simplified depreciation and simpler trading stock requirements) would continue to be available for eligible SBEs, but are not offered as a 'package', in other words, the concessions were optional. This allowed eligible business to 'pick and choose' the aspects of the SBE regime that were relevant for their business (Marsden, Sadiq, & Wilkins, 2013). The concessions were kept the same up to 2012, where the depreciation rules changed, which now allowed SBEs to immediately write-off assets costing less than AUD\$6,500 [\$6,955] (increased from AUD\$1,000 [\$1,070]), and the two pooling groups were consolidated into a single pool with a single rate (Australian Taxation Office, 2012). In addition to the

STS's tax concessions, a number of other concessions had been added for small businesses in an attempt to further compensate regressive compliance costs, and are presented on Diagram 3.

**Table 5: Concessions available for Small Business Entities<sup>42</sup>**

Item	Concession	Provision
1	CGT 15-year asset exemption	Subdivision 152-B of this Act
2	CGT 50% active asset reduction	Subdivision 152-C of this Act
3	CGT retirement exemption	Subdivision 152-D of this Act
4	CGT roll-over	Subdivision 152-E of this Act
5	Simpler depreciation rules	Subdivision 328-D of this Act
6	Simplified trading stock rules	Subdivision 328-E of this Act
7	Deducting certain prepaid business expenses immediately	Sections 82KZM and 82KZMD of the <i>Income Tax Assessment Act 1936</i>
8	Accounting for GST on a cash basis	Section 29-40 of the GST Act
9	Annual apportionment of input tax credits for acquisitions and importations that are partly creditable	Section 131-5 of the GST Act
10	Paying GST by quarterly instalments	Section 162-5 of the GST Act
11	FBT car parking exemption	Section 58GA of the <i>Fringe Benefits Tax Assessment Act 1986</i>
12	PAYG instalments based on GDP-adjusted notional tax	Section 45-130 of Schedule 1 to the <i>Taxation Administration Act 1953</i>

However, some of these concessions available to SBEs contain alternative tests of entry, which undermines the simplicity achieved from having a single definition for small business (Kenny, 2008). An example of this is the CGT (capital gains tax) concessions

<sup>42</sup> Division 328-10 of the *ITTA 1997*.

which are available for SBEs or businesses that have net assets of less than AUD\$6 million.<sup>43</sup>

The key concessions from this regime are the same as the STS's:

- Cash accounting: Using cash receipts and payments to determine taxable income;
- Simpler depreciation: An instant write off for assets up to a certain cost, while all assets are pooled with other similar life assets and depreciated at a standard rate; and
- Trading stock: Easier assessment for excess deductions or taxable income.

#### **4.3.2.3 Responses to the Small Business Entities Regime**

The impact of the new regime was expected to reduce the compliance costs of many small business entities because there is only one entry threshold to gain access to multiple concessions (Costello, 2007). However Kenny (2008) argues that the tax concessions from the SBE regime do not adequately offset the compliance costs for small businesses. As Kenny explains, the threshold for entry, when considering aggregated or 'grouped' entities this is because special rules apply with different levels of control over an entity. The rules were extensive (62 paragraphs of explanation) which may prove difficult and time consuming for small businesses to understand. Simplified prepaid expenses allow a business to deduct a prepayment if the service period is 12 months or less, and while it does provide small businesses with a timing benefit, there does not appear to be any significant simplification benefits. This concession contradicts the accounting principles that require expenses to be recognised in the period to which they relate. Compliance costs may increase, as taxpayers would need to adjust their accounting records for the immediate deduction.

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<sup>43</sup> Figures are shown in Australian dollar which with the current exchange rate NZD\$1 = AUD\$0.91, would be NZD\$6,593,406, as at 4 June 2014.

The main criticism of the simplified depreciation method is that the benefits are limited to businesses with high levels of depreciable assets, and the inflexibility and complexity associated with leaving the SBE regime. Similar to the STS, when leaving the SBE regime, this requires the taxpayer to depreciate their pooled assets under the SBE rules, while new assets will be depreciated under standard rules. This leads to increased compliance costs from a record keeping perspective, as SBE taxpayers need to maintain two distinct capital allowance systems. Finally, the simplified trading stock concession received similar criticisms when it was implemented in the STS. Overall, Kenny (2007) finds that the new SBE regime has not addressed the major problems of the STS, and thus the SBE does not reduce compliance costs any more than the STS.

Marsden et al (2013) found evidence to support Kenny's (2007) claims, as the authors studied whether tax practitioners recommended the concessions from the SBE regime for their clients, and if so, for what purpose. The findings highlight that the SBE regime does not reduce compliance costs for small business, and that practitioners generally recommend specific concessions to obtain tax savings for their clients. Simplified trading stock was among the least beneficial according to tax practitioners, as no practitioner advised their clients to use it. The general comment from the tax practitioners was that, "in order to determine whether the value of closing stock exceeded the value of opening stock by more than AUD\$5,000 [\$5,350], a business was required to conduct a stocktake, which defeats the purpose and intent of the legislation" (Marsden et al. 2013, p. 11). Furthermore, the interviewees (tax practitioners) believed that the introduction of the SBE regime, in fact, increased the compliance costs due to the increased workload and education of clients. In addition, the majority of the interviewees stated that their primary motivation for adopting SBE concessions were to minimise tax, which is a concern for policymakers because the tax law is not achieving its purpose of greater simplicity and

reduced compliance costs. Future policy changes therefore should be made to for the STS SBE achieve its original intention.

#### 4.4 South Africa

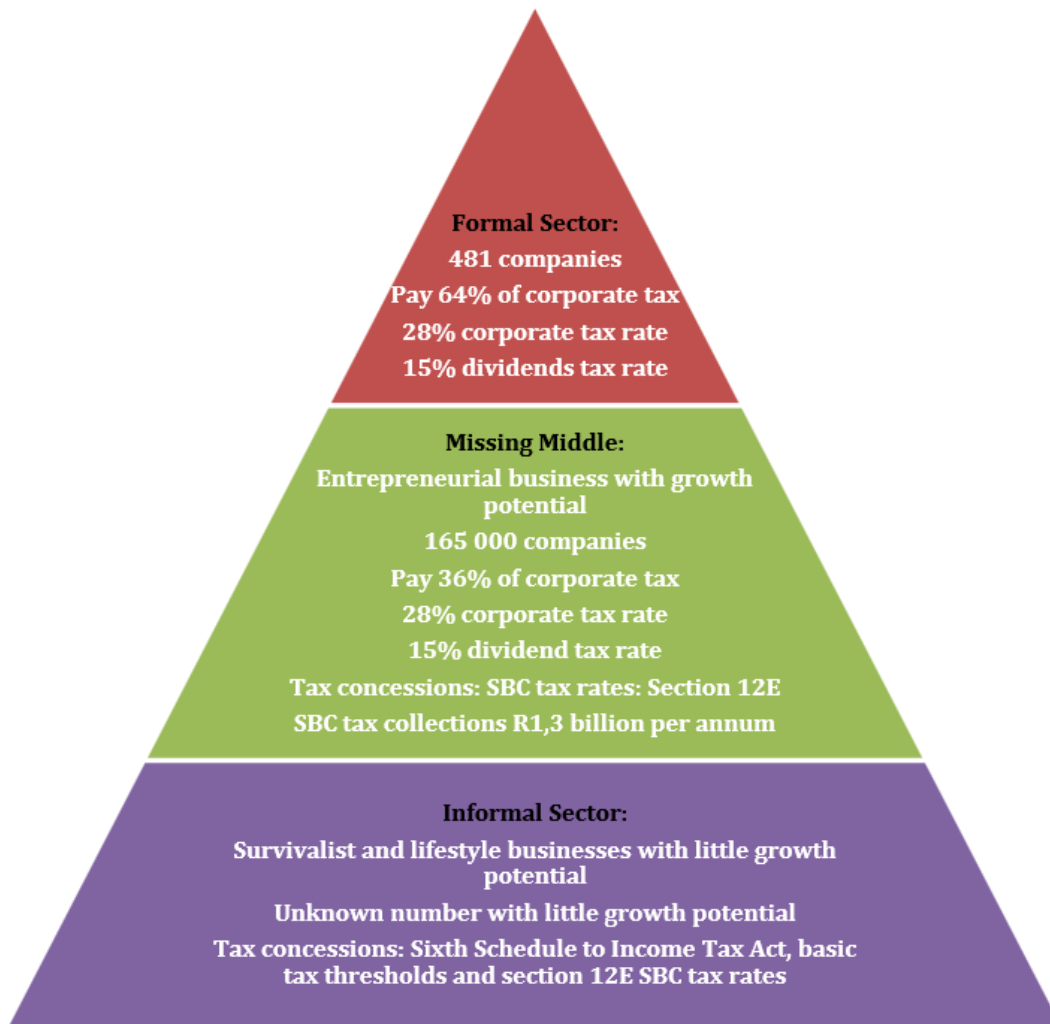
South Africa has developed two different approaches to tax micro and small to medium sized businesses. Similar to New Zealand, they have a system for micro business, as well as a separate system for small business companies. The Davis Tax Committee (DTC) (2014) explains that, since 2001, the National Treasury and South African Revenue Service (SARS)<sup>44</sup> have attempted to incentivise the ‘missing middle’ through concessions using the Small Business Corporation (SBC) concept, as defined in *Section 12E* of the *Income Tax Act 1962* (in *ITA* South Africa). They describe the ‘missing middle’ as entrepreneurial businesses with growth potential, as shown in Diagram 4. However, the problem faced in South Africa is that the level of entrepreneurial activity is about half of what is reported in other developing countries. This may be attributable to the extensive regulation imposed on those businesses, which create costly compliance costs for small businesses, while providing minimal compliance benefits. The primary objectives of these regimes is to creates an environment for these enterprises to grow, expand their operations and create more employment opportunities, while providing conditions to encourage new entrepreneurs to enter the market. The following subsections describe the two different regimes.

***Figure 1: The ‘missing middle’ sector targeted by the regimes<sup>45</sup>***

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<sup>44</sup> South African Revenue Service, equivalent to the IRD of New Zealand.

<sup>45</sup> Retrieved from the Davis Tax Committee Report.



#### **4.4.1 Small Business Corporations**

This system of concessions is targeted towards taxpayers that trade using company structures, mainly those in the ‘missing middle’, as these businesses present growth potential. As stated above, the primary purpose of the regime is to create an environment for businesses to grow and expand by minimising the costs of compliance, which increases the employment market.

##### **4.4.1.1 Entry Thresholds**

At the inception of the SBC regime in 2001, businesses must be in the formation of a close corporation, co-operative or any private company, as defined in the South African *Companies Act 2008*, in order to enter. As such, this regime excludes sole traders,



partnerships and trusts. Professional Accounting & Tax Consultants (2013) describe the entry rules, as legislated in *Section 12E* of the *ITA 1963*, to qualify as an SBC are as follows:

1. All shareholders or members are natural persons;
2. All shareholders hold no shares in any other private company;
3. All members hold no members' interest in any other Close Corporation;
4. Gross income for the year of assessment does not exceed R14 million [\$1,540,000]; and
5. Not more than 20 per cent of the gross income and all the capital gains consist collectively of investment income and income rendering a personal service.

The DTC stated that the gross income threshold have been increased from R14 million [\$1,540,000] to R20 million [\$2,200,000], effective from the 2014 year of assessment. There are businesses outside the R20 million gross income threshold that are within the 'breakeven' category, the DTC suggests that an increase to R50 million [\$5,500,000] would capture these businesses. Heavy restrictions relating to shareholding and professional service businesses are included to prevent abuse of the concessions. While entry thresholds into the system are widely explained, it is unclear whether businesses will be removed from the SBC regime if they exceed the R20 million turnover in the preceding tax year. However, an SBC will be removed if any of the ownership rules are breached.

#### **4.4.1.2 Concessions Offered**

The SBC regime offers tax reductions and simpler depreciation. Companies that are eligible as an SBC will not be taxed at the normal flat company tax rate of 28 per cent; instead, a progressive tax rate is applied. The progressive rates are favourable compared

to the company flat tax rate. Professional Accounting & Tax Consultants (2013), Moneyweb (2012) and the DTC, present information related to the progressive tax rates available for SBCs. It appears that the progressive rates and brackets are changed yearly. The tables below will show the rates for the financial years 2013 and 2015.

***Table 7: SBC progressive tax rates for year 2012-13***

Taxable Income	Tax Rate
0 – R59,750 [0 - \$6,572]	0%
R59,751 – R300,000 [\$6,572 - \$33,000]	10%
R300,001 + [\$33,000 +]	28%

***Table 8: SBC progressive tax rates for year 2014-15***

Taxable Income	Tax Rate
0 – R70,700 [0 - \$7,777]	0%
R70,701 – R365,000 [\$7,777 - \$40,150]	7%
R365,001 – R550,000 [\$40,150 - \$60,500]	21%
R550,001 + [\$60,500 +]	28%

Comparing the two tables, we can see that the rates have become more favourable for SBCs in the year 2014-15. Comparing the lowest brackets from 0 – R59,750 in 2012, to 0

– R70,700 in 2014, the upper bracket has increased to allow a higher amount of untaxed income. Furthermore, the highest bracket of income to be taxed at 28 per cent, has also risen from R300,001 to R550,001, which further lowers the amount of income tax on those businesses between those turnovers. This has been a trend since the introduction of this system, as the lowest bracket for 0 per cent tax for the year ending 2011 was 0 – R57,000 (Professional Accounting & Tax Consultants, 2013). This concession considerably reduces the amount of income tax payable for SBCs compared to ineligible companies paying a flat rate of 28 per cent on all company income.

Another major concession offered to SBCs is a special depreciation deduction for assets. Professional Accounting & Tax Consultants (2013) explain that the full cost of any asset purchased for the purpose of manufacture and brought into use for the first time on or after 1 April 2001, may have its full costs deducted in the tax year in which it relates to. As for all other depreciable assets, from 1 April 2005, they can be written off on a 50:30:20. In basis other words, for the year that the asset was purchased 50 per cent can be deducted, the next two years following that 30 per cent, and 20 per cent can be deducted each tier, respectively. There appears to be an emphasis on manufacturing equipment, which suggests easing the burden more on manufacturing businesses than others.

The key concessions from the SBC regime:

- Different tax rates: Businesses are able to calculate their income tax with a separate progressive tax system; and
- Simpler depreciation: An instant write-off for manufacturing equipment and percentage write-off for all other depreciable assets.

#### 4.4.1.3 Reponses to the Small Business Corporations Regime

The DTC has evaluated the most recent version of the SBC regime and found some fundamental issues with its design. The DTC found that the system does not provide any relief for businesses with no taxable income. Statistics<sup>46</sup> gathered by SARS finds that 40,633 of the 86,333 (47%) active SBC population earn no taxable income. The DTC argue that these businesses receive no incentives, and that they need as much financial intervention from the government, if not more, than SBCs liable to tax. The DTC states, “Of crucial importance is that the tax compliance burden is a factor of the size of the business, not the actual tax liability” (Davis Tax Committee, 2014, p. 17). Following from that, the DTC also found that the incentives are mainly beneficial for SBCs with high taxable incomes. The statistics suggest that of the 45,670 taxable SBCs, there are 12,658 with the sectors of financial services and insurance, and the medical profession, which collectively enjoy R387 million [\$42,570,000] of the total R1.36 billion [\$149,600,000] (24%) SBC incentive. The DTC question whether these types of businesses were intended to receive the SBC incentive.

Furthermore, the DTC find that the costs to administer the SBC tax incentive for business is expensive, especially since professionals are advocating its use for their clients to increase their fees. Not only do the entry thresholds require accounting data, but also calculation of the SBC’s taxable income becomes harder than it would have, than if they continued to use a simple flat company tax rate. Finally, the DTC criticise the complexity of the SBC definition that was designed to prevent abuse of the system. The rules regarding ownership in other companies can be onerous, and the DTC suggests that these rules should be reassessed and simplified.

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<sup>46</sup> SARS ‘Tax Statistics’ 2013.

Timm (2013, p. 1) describes the SBC regime as one of “the most generous tax breaks on offer for small and micro businesses, but they remain grossly unused”. Timm explains that by the end of the 2012 financial year, only about 90,000 businesses received a tax break as an SBC (from approximately 110,000 companies that applied), despite having over 2 million registered companies with SARS. Timm speculates that the low take-up rate may be due to poor marketing of the tax breaks or the onerous criteria a business needs to meet to qualify. This view is consistent with the DTC’s and it is quite possible that the entry criteria may be the cause of such low take-up rates.

#### ***4.4.2 Micro Business Turnover Tax***

South Africa has created a regime to help lower the compliance costs, as well as provide a tax break for the smallest businesses. Entry into this regime is highly monitored by SARS to avoid misuse of the system. ‘Survivalist businesses’, referred to in Figure 1, are the target for this regime. These businesses are described as mainly home-based business or ones that operate ‘on the streets’, for example street vendors. Typically these businesses lack capital equipment, operate predominantly in cash, while maintaining, at best, basic financial records. Such businesses include, but are not limited to, taxi operators, taverns, casual construction workers and gardeners (DTC, 2014).

##### ***4.4.2.1 Entry Thresholds***

In order to be eligible for the concessions offered in the micro business regime, the turnover of a natural person or company must not exceed R1 million [\$110,000] per annum. In addition to the turnover threshold, income from professional services cannot exceed 20 per cent of the total business income, and the proceeds from the disposal of capital assets may not exceed R1.5 million [\$165,000], in the current and immediately preceding two years. This regime is not limited to company-structured businesses, so sole

traders and partnerships can be eligible, hence, the system is not limited to companies. As expected, the regime has been designed for the smallest businesses, and various measures have been put in place to prevent unwarranted users.

#### 4.4.2.2 Concessions Offered

Being eligible to enter the micro business regime enables a business to calculate their income tax on a progressive turnover basis. The current rates for the 2014-15 year are as follows:

***Table 9: Micro Business progressive turnover tax rates for year 2014-15***

Taxable Turnover	Tax Rate
0 – R150,000 [0 - \$16,500]	0%
R150,001 – R300,000 [\$16,500 - \$33,000]	1%
R300,001 – R500,000 [\$33,000 - \$55,000]	2%
R500,001 – R750,000 [\$55,000 - \$82,500]	4%
R750,001 + [\$82,500 +]	6%

The rates are considerably lower than compared to income tax rates because turnover will be used to determine liability, rather than profit. At this stage, there are no other concessions offered to micro businesses.

The key concession of this regime is a Different tax rate: Where businesses are able to calculate their income tax liability using a progressive turnover tax.

#### 4.4.2.3 Responses Received on the Micro Business Turnover Tax Regime

The DTC (2014) evaluated the current micro business regime. The system was designed to capture some businesses that have not previously paid their taxes, which is similar to the 2009 proposed system in New Zealand, to allow those that have operated mainly in ‘under-the-table’ dealings to join the simplified system without penalty from past activities. However, the DTC questions whether businesses, who in the past have not paid taxes, would wish to the cost of complying with tax law to register for a new simple tax system. Another issue discovered by the DTC is that the micro regime does not promote growth, because businesses will become ineligible once they exceed the exemption thresholds. This creates an incentive for taxpayers to keep business income below the threshold. Finally, the DTC (2014) and Timm (2013) both agree that the take-up rate of the regime is considerably low, as by the end of the 2012 year only 8,493 businesses were registered as micro.

Moneyweb (2012) provides some evidence as to why businesses may not wish to register as a micro business. One thing that may be undesirable for potential micro business taxpayers is that turnover tax, while it has much lower rates, must be paid regardless of whether a profit is made. Moneyweb (2012, p. 1) advises, “as a rule of thumb, if you have big, healthy margins, turnover tax could work for you, however if your margins are generally tighter, you’re probably better off using the SBC concession’. This could explain some of the disparity in numbers registered in the micro regime compared to the SBC regime.

## 4.5 The United Kingdom

The UK has recently approved adoption of a simplification scheme for small businesses. Her Majesty's Revenue & Customs (HMRC), the UK Revenue authority, appointed the newly created Office of Tax Simplification (OTS) to carry out a review on small business taxation in 2010 (HM Treasury & OTS, 2010). In February 2012, the OTS provided recommendations for simplifying the tax administration for small business in their final report (Office of Tax Simplification, 2012). The focus of the recommendations was on the smallest businesses, as past research has shown that compliance costs regressively affect businesses, due to the fact all businesses (from sole traders and partnerships to multinational corporations) have to use the same rules to work out their trading profits. Subsequently, the UK government introduced a separate regime for the smallest businesses, known as 'Simpler Income Tax for the Simplest Small Business' in 2013. The following sections discuss the entry requirements and the concessions that the regime offers.

### 4.5.1 *Simpler Income Tax for the Simplest Small Business*

This regime was introduced by the UK Finance Bill 2013, which amends and adds several sections in the *Income Tax (Trading and Other Income) Act 2005* (ITTOIA). The regime intends to create a complex-free tax system for smaller businesses to comply with their income tax obligations.

#### 4.5.1.1 Entry Thresholds

During the proposal phase of the regime in 2012, the focus of the recommendations was for the smallest businesses to be the focus, more specifically, those with a turnover £30,000 [\$62,100] or lower, with little or no significant capital investment, who are normally not registered VAT, and with no employees. As explained above, HMRC



appointed the OTS to review the proposed regime, and in 2013, the final report by the OTS recommended some changes, which were approved and subsequently implemented through the Finance Bill. The entry turnover thresholds were increased from the initial recommendation of £30,000 to £77,000 [\$159,390] and double that (£154,000) [\$318,780] for those in receipt of the Universal Credit.<sup>47</sup> In addition to the turnover requirement, businesses cannot be incorporated, so they must operate as either a sole trader or in a partnership.

The entry threshold was increased to be in line with the VAT registration rate. The OTS wanted to keep the threshold at a ‘familiar boundary’ in the tax system (HM Revenue & Customs, 2012a). The consequence of the increased threshold means that more businesses are eligible for the regime. Since the implementation of the regime in 2013, the VAT registration rate has increased to £79,000 [\$163,530] (due to inflation) from 1 April 2013, which also increases the threshold for the small business tax regime. For the year 2014-15, the VAT registration rate has risen to £81,000 [\$167,670], which means that the regime turnover threshold also increased to this a level (HM Revenue & Customs, 2014).

***Table 10: Turnover levels to enter or be disqualified the regime***

Entry turnover to qualify must be less than	£81,000
Exit turnover to be disqualified must be more than	£162,000

Furthermore, the OTS also recognised that there are transitional issues as businesses grow. Thus the regime allows qualified businesses to grow up to twice the turnover threshold rate (£162,000) [\$335,340], at which point the business must exit the regime and revert back to standard rules (as shown on Table 10).

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<sup>47</sup> The Universal credit is a new welfare benefit set up for people who are looking for work or on a low income. Retrieved from: <https://www.gov.uk/ment/policies/simplifying-the-welfare-system-and-making-sure-work-pays/supporting-pages/introducing-universal-credit>.

#### 4.5.1.2 Concessions Offered

Organisations eligible for the regime will be allowed to use the cash basis and simplified expenses to calculate their taxable income. *Section 25A Cash Basis for Small Businesses* has been added to the ITTOIA 2005, which provide the rules regarding the use of the cash basis to determine taxable income. Using the cash basis to calculate profits removes the need to report in accordance with generally accepted accounting principles (GAAP). However, businesses can choose to continue using GAAP, as the cash basis is an optional concession (HM Revenue & Customs, 2012b). Reported losses can only be carried forward. Furthermore, users opting to use the cash basis will no longer be required to revalue their trading stock to market value, which removes the burden for businesses of determining the market value and then having to subsequently adjust it.

Simplified expenses are available to both eligible businesses and ineligible unincorporated businesses.<sup>48</sup> The simplification of expenses applies to expenditure on vehicles, use of homes for business purposes, and use of premises used for both home and business purposes. The concession allows the business to calculate these types of expenditure using a simple flat rate, rather than a potentially tedious and complex appointment of actual expenditure. The purpose of the provision is to reduce the complexity in determining deductible expenditure for the particular year.

*Section 94E* of the ITTOIA 2005 provides the rules for vehicle expenditure. The main aspect of this concession is that it allows businesses to calculate the allowable expenditure for each vehicle using the mileage used. For cars and goods vehicles, a progressive flat rate system will be used, whereas motorcycles will only have a single flat

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<sup>48</sup> It should be noted that the entry thresholds were mainly devised for those entering the cash basis, while simplified expense concessions may apply to any non-company structured businesses.

rate for mileage used. Restrictions are placed on those vehicles that have previously claimed capital allowances. The rates are set out on Table 11.

***Table 11: Simplified motor vehicles expenditure rate***

Vehicle	Flat rate per mile
Cars and goods vehicles first 10,000 miles	45p [\$0.93]
Cars and goods vehicles after 10,000 miles	25p [\$0.51]
Motorcycles	24p [\$0.49]

*Section 94H* ITTOIA 2005 sets the rules for a standard deduction for businesses that use a home for business purposes. The allowable amount will be based on the number of hours spent per month. Alternatively, businesses can choose to claim any allowable portion of actual expenses. Businesses may only use these rates if they spend at least 25 hours per month working from home. It should be noted that telephone and internet expenses are not covered in this flat rate, but a business can claim a proportion of these costs by working out the actual costs. The rates are shown in the following table.

***Table 12: Standard deduction rate for working at home***

Number of business use per month	Flat rate per month
25-50	£10 [\$20.70]
51-100	£18 [\$37.26]
101 +	£26 [\$53.82]

*Section 94I* ITTOIA provides the rules for businesses that use a portion of their personal home as business premises. An adjustment can be made for the number of private occupants using their premises per month. The business will need to determine the total amount of the expenses incurred in the house and then subtract the amount for personal

use (based on the number of people living on the premises), and that amount can be claimed. By using this method to determine the appropriate deduction, the business owner will not need to tediously calculate the split between personal and private use. The following table presents the amounts that can be claimed.

***Table 13: Standard rate for private use of the premises***

Number of people	Flat rate per month
1	£350 [\$724]
2	£500 [\$1,035]
3 +	£650 [\$1,345]

The concessions offered are optional, so at no point will it require businesses to change established methods of expenditure reporting. So, similar to the updated Australian regime, businesses may ‘pick and choose’ the concessions that are relevant for them. There is one exception to this. If a business chooses to use the cash accounting, they must also use fixed-rate motoring expenses. Overall, the regime provides alternative options for small businesses to calculate their taxable income with greater certainty (HM Revenue & Customs, 2012b).

The key concessions of this regime are:

- Cash accounting: Eligible businesses will be able to calculate their taxable income on a payments and receipts basis;
- Simpler Depreciation: Calculating the depreciation for vehicles with a standard rate based on mileage used; and
- Home office deductions: Standard rates will be applied across the board for home office deductions. There is also separation of private and business use.

#### 4.5.1.3 Responses received on the Simplest Income Tax for the Simplest Small Businesses Regime

The regime underwent its first change in 1 April 2013. The UK Government implemented an amendment to the original concessions, which removed the mandatory use of fixed-rate motoring expenses if cash accounting was used (AccountingWeb, 2013). The Association of Taxation Technicians (2013) (ATT) published a response by its President, Yvette Nunn:

*“We welcome in particular the abandonment of the mandatory use of fixed-rate motoring expenses which could have been a stumbling block for many potential users of the proposed scheme...it is also good to see that HMRC has listened to the advice from bodies like the ATT”.*

This suggests that practitioners and small businesses do not favour mandatory provisions in a simplification scheme, which is similar to the findings from the Australian experience.

Economia (2013) published an online article which questions how simple a small business tax regime really is. The author believes that the turnover threshold for the ‘simplest small business’ is too high using the VAT registration rate, and even more so for recipients of Universal Credit. Further, the author questions the relevance of Universal Credit receivers and business size. The author criticises the optional aspect of the new rules because rather than simplifying the current tax rules, it further complicates the situation for the owner by giving them choices that will lead to confusion. For some businesses, the decision to use one system over another is obvious, while for others, it will require time-consuming calculations to determine which method is more worthwhile pursuing. In addition, these calculations will be required each year in order for the business

to make informed decisions. The author concludes by stating that a better solution for tax simplification would be to define a set of clear tax rules applicable across the board without exception or variation, but the author doubts this can be achieved, due to fairness arguments.

## 4.6 The United States

The US takes a different approach to their small business concessions. There is no comprehensive regime specifically for smaller businesses; however, there are some targeted concessions, which is similar to New Zealand's current practice. Most recently, the US has extended several small business tax incentives, with the intention of spurring innovation, supporting capital investment, and making it easier to hire new workers (U.S Small Business Administration, 2013) (SBA). This was made possible by passing of the *American Taxpayer Relief Act 2012*, which lead to subsequent amendments in the US Income Tax Code, most notably *Section 179 Deductions*, that allows small businesses to immediately deduct certain new and used property.

Since there is no comprehensive regime for smaller businesses, there becomes an issue as to what attributes a small business. There does not appear to be a standardised definition adopted in the US. The SBA defines small businesses as any business with less than 500 employees (Nazar, 2013). However, this description of a small business is rarely used, especially when determining whether a concession is for a 'small business'. Most tax concessions will come with different eligibility criteria, so in this section, a list of concessions, mainly focused towards smaller businesses, is discussed.<sup>49</sup>

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<sup>49</sup> Not all concessions will be relevant outside of the US, so concessions that could be applicable in New Zealand will be considered in this section.

### 4.6.1 Key Concessions Offered

#### 4.6.1.1 Simpler Depreciation

The signing of the *American Taxpayer Relief Act 2012* extended the deduction for certain property up to USD\$500,000<sup>50</sup> for the 2012-13 tax years. Businesses that are considered eligible, or in essence ‘small’, must have under USD\$2 million<sup>51</sup> in qualifying expenditures. The concession allows eligible businesses to deduct, in some cases, the entire cost of any qualifying asset in the year that it was purchased, rather than depreciate the cost over time. In addition, ‘bonus’ depreciation allows business owners to depreciate 50 per cent of the cost of new equipment purchased in 2014. Both tax incentives can be used concurrently.

#### 4.6.1.2 Start-Up Costs/Pre-Trade Deductions

This concession is not designed specifically for small business, but its design and purpose suits smaller businesses. The concessions allows a business to deduct up to USD\$5,000 [\$6,850] of start-up costs incurred before operations begin, in the first year of business (Weltman, 2014). Where the costs exceed USD\$5,000 but is under USD\$50,000 [\$68,500], the business can amortise these costs over a period of 15 years. There are some special rules and conditions for those costs that exceed USD\$50,000 to be deducted in the future. While this concession is not limited to those under the ‘small business’ definition, the conditions are set low enough that it restricts the ‘usefulness’ of these deductions for larger start-ups.

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<sup>50</sup> Figures are shown in US dollars which with the current exchange rate NZD\$1 = USD\$0.85, would be NZD\$588,235 as at 4 June 2014.

<sup>51</sup> Figures are shown in US dollars which with the current exchange rate NZD\$1 = USD\$0.85, would be NZD\$2,352,941 as at 4 June 2014.

#### 4.6.1.3 Home Office Deductions

Again, the following concession is not limited for small businesses, but is targeted towards smaller businesses. This concession allows businesses that operate principally from home, or have dedicated workspaces at home, to deduct a portion of expenditure incurred (Weltman, 2014). These costs include, but are not limited to, rent, mortgage, insurance, electricity and housekeeping. The deduction requires the taxpayer to measure the work area used as a percentage of the total home space, and from there the expenditure can be apportioned. However, from the 2013 tax year, taxpayers will have the option to use a simplified method of determining the home office deduction (Neal, 2013). A simplified rate of USD\$5<sup>52</sup> per square foot of home (with a maximum of 300 square feet claimable) that's used for the business purposes is deductible, instead of having to calculate the total square diameters of the house and then take a percentage of the total expenditure incurred as a deduction. This method of calculation eases the amount of measuring required.

#### 4.6.1.4 Cell Phone Deduction

As cell phones are more commonly used than landlines (Neal, 2013), a deduction is allowed for the portion used for business use. The concession requires the business to distinguish and separate business from private use, so a portion can be deducted. Again, this concession is not specific for small businesses, as there are no barriers of entry.

Key concessions offered to small businesses:

- Simpler depreciation: Businesses can deduct a certain amount of capital asset purchases;

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<sup>52</sup> Figures are shown in US dollars which with the current exchange rate NZD\$1 = USD\$0.85, would be NZD\$5.88 as at 4 June 2014.



- Start-Up and pre-trade deductions: Start-up businesses can deduct up to a certain amount for start-up expenses;
- Home office deduction: A simplified rate can be used to deduct an amount of expenditure incurred in a private home; and
- Cell phone deduction: Some businesses use cell phones more than landlines. A deduction will be available if it can be separated between private and business use.

These are the concessions currently available to most businesses (that has some relevance outside of the US), but with an emphasis on small, start-up businesses. However, President Obama intended to introduce a more simplified system of tax incentives for small business owner in his 2013 Budget (Neal, 2013). However, developments of this regime could not be found by the researcher. Some of these concessions include removing capital gains on key investments, doubling the amount of pre-trade deductions to USD\$10,000 [\$13,700], and eliminating complicated depreciation schedules and simplifying tax returns by streamlining the home office deductions.

## **4.7 Comparative Summary**

Throughout the review of each country's concessionary regimes for small businesses, each has its own unique features, while maintaining a level of similarity with the concessions provided. This section provides a brief comparison of the different regimes, in particularly the barriers of entry and the concessions offered.

### **4.7.1 Entry Thresholds**

This subsection will compare the entry criteria for each the regimes together. As the criteria of entry vary from country to country, an 'x' signifies criteria that are not relevant to the application of the regime. For the comparison, the latest version of each regime is

used for the analysis. Finally, as some countries have implemented two regimes, one for ‘small businesses’ and another for ‘micro’, two tables will be used for the comparison.

***Table 14: The entry thresholds into each ‘Small Business’ regime***

	Maximum Entry Turnover	Number of Employees	Exit Turnover Threshold
New Zealand (Proposed)	\$600,000	x	\$840,000
Australia	AUD\$2 million [\$2,140,000]	x	x
South Africa	R20 million [\$2,200,000]	x	x
United Kingdom	£81,000 [\$167,670]	x	£162,000 [\$335,340]
United States	x	Less than 500	x

Looking at the maximum entry turnover, it is clear that, aside from the US, in New Zealand dollar terms, the UK has the lowest entry turnover threshold cut-off at \$158,823, compared to South Africa being the highest at \$2,200,000, and Australia a little lower at \$2,140,002. When looking at the exit turnover thresholds, it is interesting to observe that the two lowest maximum entry threshold countries have an exit threshold that is different to the entry one, providing an opportunity for businesses to grow before having to revert back to normal rules. The US is different to the other countries, in that it does not have a comprehensive regime into and the concessions can be accessed by most businesses, but are designed for smaller businesses. As stated above, the SBA considers businesses with less than 500 employees as being ‘small’, so that has been denoted the entry criteria for assessing the concessions offered.

***Table 15: The entry thresholds into each ‘Micro Business’ regime***

	Maximum Entry Turnover	Number of Employees	Exit Turnover Threshold
New Zealand (Proposed)	\$60,000	0	\$84,000
South Africa	R1 million [\$110,000]	x	x

The only countries that offer or propose a separate regime to micro businesses are South Africa and New Zealand. Both entry turnovers are not particularly high, with South Africa slightly higher at just over \$100,000. Micro businesses in New Zealand would be allowed to have any employees, whereas South Africa has no restriction. Finally, the proposed regime for New Zealand includes an exit threshold that is different to its entry threshold, which allows for fluctuations in turnover without a business being removed from the regime. South Africa has not included such a provision in their thresholds.

#### ***4.7.2 Concessions Offered***

This section groups together and compares the small business tax concessions offered. This list will then be used for the interviews with the tax professionals. A comparison of the concessions offered from each country is shown in the following table. A distinction between the concessions offered in small or micro business regimes is not necessary, as the focus of this thesis is on exploring different possible concessions for small business in general. Another important point is that the concession may be implemented differently in each country, but overall the effect intended to be achieved is the same. The table denotes “✓” as having the concession in the country’s regime, and an “x” means that no such concession is mentioned in the regime. There could, however, be provisions in each respective tax system that deals with certain concessions not mentioned with the regime.

**Table 16: The tax concessions offered in each country's regime**

	New Zealand	Australia	South Africa	United Kingdom	United States
Cash Accounting	✓	✓	x	✓	x
Simpler Depreciation	✓	✓	✓	✓	✓
Trading Stock	✓	✓	x	x	x
Different Tax Rates	✓	x	✓	x	x
Timing of Payments	✓	x	x	x	x
Start-Up Deductions	x	x	x	x	✓
Cell phone Deductions	x	x	x	x	✓
Home Office Deductions	x	x	x	✓	✓

Table 16 shows that all regimes include a concession for simpler depreciation, which could mean that accounting for depreciation is a major contributor in the compliance costs faced by small businesses. The next most used concession is allowing businesses to calculate their income tax on a payments and receipts basis, rather than using accrual accounting. New Zealand can be seen to have the most concessions offered to eligible taxpayers, but this may be due to the fact that it is at this stage point only a proposal and has not been implemented. In contrast, South Africa offers the least amount of concessions to its eligible taxpayers, with only simpler depreciation and the use of a different tax rate. The US offers deductions that most countries do not, which raises the question; whether these deductions help businesses reduce their compliance costs for small businesses. Overall, these concessions are currently available to small businesses,

with the exception of New Zealand, to help reduce the compliance costs of taxation. This answers the first research question:

*RQ1. What tax regimes are currently in place (or proposed) for small businesses, in a group of selected countries, to reduce the tax compliance burden of these businesses?*

# Chapter 5: Interview Findings

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## 5.1 Introduction

This chapter presents the interview findings with a number of tax professionals in New Zealand. The purpose of the interview, as explained in Chapter 3, was to gauge the opinions and ideas on the viability for New Zealand small businesses on the concessions gathered in Chapter 4, in order to answer the second research question:

*RQ2. Of the tax regimes (and specific provisions) implemented or proposed in these selected countries, which of them, if implemented, could be expected to reduce the compliance costs of taxation for small businesses in New Zealand?*

The findings are presented in two main parts: the first reviews the tax concessions, summarised in 4.7.2 and whether it could be expected they may reduce compliance costs in New Zealand; the second focuses on other important aspects to consider when designing a small business tax regime. The discussion is focused on the tax professionals' perceptions from their experience with the New Zealand tax system, and their particular expertise with smaller businesses.

## 5.2 Participants

As explained in Chapter 3, 'tax professionals' is defined in this thesis as individuals with many years of experience working in tax in New Zealand. Further, tax professionals are recruited on the basis of their working experience and interest with small businesses. Following the preliminary research to find suitable participants, ten invitations were sent out via email to gauge interest. At the beginning of the interview process seven tax professionals responded, indicating their interest to participate in the interview. However,

one did not respond to subsequent emails, resulting in a final number of six participants for the interviews. The selected participants worked in various small to medium sized accounting firms, and members from various tax advisory organisations that held managerial or higher positions. This thesis has two participants in each category: Small Accounting Firms, Medium Accounting Firms, and Tax Advisory Organisations. Of the six participants, five were male and one female. Furthermore, the geographic location of each participant varies over the country, with five were interviewed over the phone and one face-to-face. The interviews were conducted between November 2014 and January 2015.

*Table 17: Demographics of interview participants*

Type of Tax Professional	Gender	Interview Method	Reference in the Thesis
Medium Accounting Firm	Male	Phone	Tax Professional A
Tax Advisory Organisation	Male	Phone	Tax Professional B
Medium Accounting Firm	Male	Phone	Tax Professional C
Tax Advisory Organisation	Male	Phone	Tax Professional D
Small Accounting Firm	Male	Face-to-Face	Tax Professional E
Small Accounting Firm	Female	Phone	Tax Professional F

### 5.3 Interview Findings

The following sections analyse the interview information to provide insights as to how a small business regime should be designed, while considering important issues that may arise. First, the concessions, outlined in 4.7.2, are discussed, and then other issues, brought up in the interviews, are discussed.

### **5.3.1 Tax Concessions for a Regime in New Zealand**

The interview participants were given a list of concessions similar to section Chapter 4, Table 16, to review prior to the beginning of the interview. The participants were given an opportunity to share their thoughts on each concession. The following section will present key themes arising from the responses given.

#### **5.3.1.1 Cash Accounting**

As a whole, the concession allowing small businesses to calculate their income tax on a cash basis was generally accepted among the respondents as being useful. The general understanding is that it removes the need for time-consuming calculations related to accrual accounting. As a result, this reduces the amount of time spent by small businesses dealing with accounting calculations. Some suggested that using the cash accounting basis could be linked with the current GST system in New Zealand. Combining the GST and income tax return on a cash basis could lead to be better management of cash flow, as tax payments are only made when cash is paid and received. Several comments were made on the cash accounting concession:

*“Probably the biggest one would be cash basis [referring to all concessions], if you would allow that for small business, it would take a lot of pressure off of small business...so this means that they can pay their taxes when they have the money”.*

(Tax Professional D, Tax Advisory Organisation)

*“Cash accounting – absolutely, you shouldn’t have anybody in a small business doing anything other than that...can you do it through GST*



*filing, so you can actually get away with them filing an income tax return altogether”.*

(Tax Professional A, Medium Accounting Firm)

While all participants agreed that cash accounting would save time, one respondent believed that the time saved through implementing a cash basis would be minimal due to the availability of accounting software systems. Furthermore, businesses that already operate on an accruals basis would incur more compliance costs to restructure their business in order to take advantage of the concession. As Tretola (2007) explains, the cause of the initial low take-up rate of the STS was a result of the cash accounting rules being imposed on, established, accrual-based accounting businesses. As one interviewee commented:

*“Cash accounting is an interesting one, I find that in the sense that business software systems that capture revenue these days are getting more readily available, so a cash accounting system is almost the same, where full accounting is actually not too more expensive to administer than cash accounting...we might, by the margin, say cash accounting is simpler for a small business”.*

(Tax Professional C, Medium Accounting Firm)

Another interesting argument arose, where the tax professional agreed that cash accounting, in the general sense, will save a little time, whereas removing the capital-revenue distinction through the cash accounting system could save even more. This would inherently remove depreciation completely. However, this would lead to less

available information about the business, which could cause problems with internal and external decision making, as one interviewee commented:

*“...removing the income capital divide would save, a lot more time and money. Basically they wouldn’t need an accountant anymore, because a lot of what we do is distinguish between income and capital...there are other implications though because there are going to be other stakeholders involved, let’s say if somebody wanted to borrow money, the banks are going to be fairly interested in the performance of the business, but nobody will know”.*

(Tax Professional E, Small Accounting Firm)

Overall, cash accounting can help reduce the compliance costs of bookkeeping for some businesses. Where businesses have established methods of accrual accounting, a cash accounting method could increase compliance costs. Implementing a cash accounting concession in a small business regime is indeed favourable, but it should not discourage good bookkeeping practice. Perhaps businesses that operate in accrual accounting should keep separate records for bookkeeping and tax purposes, but this would increase compliance costs.

#### **5.3.1.2 Simpler Depreciation**

All of the participants agreed that depreciation needed to be simplified for small businesses. The tax professionals favour the idea of increasing the \$500 instant fixed asset write-off currently allowed in New Zealand.

*“The depreciation, absolutely agree that the current write-off threshold of \$500 is too low, so, you know [increasing it to] \$1,000 is certainly a good step up”.*

(Tax Professional B, Tax Advisory Organisation)

*“Simpler depreciation, again, obvious, but it should be raised to [at least] \$5,000, because that covers your laptops and all that other kind of stuff”.*

(Tax Professional F, Small Accounting Firm)

It was agreed among most tax professionals that depreciation for small businesses is not sizeable enough to make a significant difference, even if the instant write-off threshold were increased. Another tax professional believed that depreciation should be removed completely from small business. As they comment:

*“Same with simpler depreciation [as well as standard depreciation], don’t do it. As a small business – who cares? And I’ve told this to the officials, as long as you’re not getting a deduction for a house or business premises, or cars, who cares about the rest”.*

(Tax Professional A, Medium Accounting Firm)

As mentioned above with the cash accounting concession, removing the capital-revenue distinction would eliminate depreciation completely. This was another suggested method from one interviewee:

*“Simpler depreciation is probably a useful one, increasing write-offs is probably the best way to do it. [NZICA] suggested that in the end of*

*the [2009 NZICA small business proposal] that it was to be aligned with GST and income tax, so you'd write-off the asset to the portion of the business it was purchased in, up front, like cash flow basis".*

(Tax Professional D, Tax Advisory Organisation)

During the interviews, one tax professional brought up a key point as to why there should be simplified methods of depreciation for small businesses:

*"...I think the depreciation regime has been around for a long time, I guess I can understand where the depreciation concept comes from, [to record] the declining of an asset's productive use over time. But what benefit is it to a small business...with depreciation right now, we are having to decide what is an asset, furthermore, a fixed asset, and of course intangibles as well. Determining what [is] a fixed asset then determining what the appropriate depreciation rate [should be], all takes time...and with the current tables, it's not easy, it would be nice to get rid of it".*

(Tax Professional E, Small Accounting Firm)

Overall, the interviewees recommend that there needs to be inclusion of a simplified depreciation concession for small businesses. The cost of depreciation for small businesses is too high, without an equal or greater benefit of calculating it. The design of simpler depreciation methods would reflect more of the US and South African concession (immediate write-off) rather than the Australia and the UK (pooling all assets and depreciating at a standard rate). Therefore, if a regime is to be implemented in New

Zealand, it needs to either increase the immediate fixed asset write-off threshold or remove it completely with the cash basis, in order to reduce the compliance costs.

#### 5.3.1.3 Trading Stock

This concession removes the need for small businesses to conduct yearly stocktakes. The responses for this concession varied across the interviewees. Two of the six tax professionals agreed that it would be merely a timing issue, with one tax professional believing that not undertaking a yearly stocktake can heavily impact on year to year results. The remainder did not see much of an impact with the current rules in place. Some comments made are:

*“Trading stock is one of those things that the Revenue [authority] will always say, ‘well how big is the trading stock?’ which is only timing, so who cares, it’s just shifting profit from one year to another”.*

(Tax Professional F, Small Accounting Firm)

*“...but the one I have the most issues with is probably the trading stock, simply because it can have such a material impact on year to year results. And to leave trading stock out of your calculations, will result in significant manipulation”.*

(Tax Professional B, Tax Advisory Organisation)

*“Removal of stocktakes, in a practical sense, it already happens, okay we’ve got that \$5,000 exemption, so those don’t do stocktakes, but to be quite honest, the average corner dairy, doesn’t do a stocktake at the end of the year...a very large*

*number of businesses do not actually do stocktakes...[doing a stocktake] it's not too hard to do if you set up for it, couple of businesses that actually do stocktakes, have barcode scanners and just go round and read the numbers and put the quantities and it's not that hard, but businesses just don't get into it because it costs more money...I'm not certain, removing it wouldn't make much difference, keeping in there, it's probably about good business than tax".*

(Tax Professional E, Small Accounting Firm)

*"If you bring on a cash basis, you don't have to keep these sorts of reports because you just have purchases, and if you pay for it, its deductible, and you don't worry about anything, so that works quite nicely".*

(Tax Professional D, Tax Advisory Organisation)

As explained by one tax professional, a lot of businesses do not do the yearly stocktake, which suggests that the rules need to be further simplified. This is particularly important, as one interviewee explained leaving trading stock out of the calculations could lead to manipulation. However, the rules for simplified trading stock calculations need to be designed with the intention of reducing compliance costs, because McKerchar (2007) explained, for the Australian regime, that there appears to be little scope in reducing the compliance costs with respect to trading stock.

#### 5.3.1.4 Different Tax Rates

The idea of having different tax rates is to simplify the tax calculation by giving eligible businesses a low flat rate on their income or via some other measure (turnover or gross profit). As mentioned above, in Chapter 4, New Zealand's proposal regime and South Africa's regime for micro businesses include a low flat turnover tax, which simplifies income tax calculations. The majority of the tax professionals agree with New Zealand's proposed system (the 2012 proposal) of implementing a separate simplified income tax method for 'micro businesses'.

*"What [NZICA] were trying to do [the 2012 proposal] with that micro stuff was for simplicity to determine what your tax was going to be...At the micro level, I think it's quite important because at the end of the month, you need to calculate what level your income is aggregated to work out what tax is payable...you can still use a flat rate, as long as it's on a net or gross approach".*

(Tax Professional C, Medium Accounting Firm)

*"If you're a micro business, let's ignore everything other than turnover tax and actually have it as a relatively small number".*

(Tax Professional A, Medium Accounting Firm)

The 2012 proposals for New Zealand mentions different rates based on the type of business. So, if the micro business operates in primarily supplying goods, the rate would be 7 per cent, whereas, if a business primarily offered services, then the turnover tax would be 14 per cent. This is due to the extra costs incurred by retail business that do not

affect service providers. However, for simplicity reasons, one tax professional suggests that the rates should be the same.

*“With turnover tax, you would presumably have it at a higher rate [for service businesses], than those selling things on Trademe. However, I think you should simplify it and have it at the same rate. But you will have those earning income from services be underpaying and those from goods, potentially, overpaying. But because it’s so low, it’s not significant”.*

(Tax Professional F, Small Accounting Firm)

There is less support for a similar, preferential rate, system for ‘small businesses’, such as South African’s SBC progressive tax. This is understandable from the following comment:

*“I think for micro its fine because they aren’t making a lot of money, but when you get up to small business, presumably, these people are making a living, so it’s a full time activity, so why would you tax them differently to a wage earner? So I would be inclined to give a flat rate simply for micro business to keep it simple”.*

(Tax Professional E, Small Accounting Firm)

The overall finding for different tax rates is that such a structure should be implemented but only for ‘micro businesses’. This would greatly reduce the amount of calculations required to comply with the tax laws. These findings are consistent with the feedback received from the proposed New Zealand regime (New Zealand Institute of Chartered Accountants, 2012b). However, a preferential tax rate for small business can be seen as



unfair to those that work for a wage or salary, even if it does reduce compliance costs. A possible reason as to why South Africa can offer lower rates to ‘small business’, is that South Africa, as a developing country intends to stimulate the economy by reducing the amount of taxes levied on SBCs, so that such businesses can grow and in turn reduce unemployment levels. Consideration need to be made on the basis of what should be taxed (gross profit, turnover, or net profits) in order to determine the appropriate rate. Finally, if a net or gross value is chosen to be taxed, then it should be very clear as to what is deductible.

#### 5.3.1.5 Timing of Payments

The timing of payments appears to link with cash accounting, as found in the above section. It appears that income tax returns could be filed at a more convenient time, for example at the same time as GST, if an overall cash basis was used, as GST is calculated on an payments basis. There appear to be two problems with filing income tax jointly with GST. The first is that social benefit and assistance taxes that need will also need to be paid on those dates, which could have an impact on cash flow.

*“[NZICA] were trying to look into having quarterly finals [4 major payment dates] for small business, but the big problem is that you get with your social assistance taxes, or benefits and trying to work them in, it’s a real problem around paying that and tax rates. So it makes it really difficult.*

(Tax Professional D, Tax Advisory Organisation)

The other issue is that currently with the provisional tax system is that it is based on last year’s income and depending on whether you overpaid or underpaid, a taxpayer will receive interest or have to pay interest, respectively, on the difference. An interesting idea

brought up with the timing of payments, is why not calculate provisional tax on a monthly basis, remove the interest. A comment in this regard is presented here:

*“I mean, with modern software, we can get information every month if we wanted, if clients are using that software, but still in theory, we could get the information monthly...an option would be to calculate provisional on monthly income and getting rid of interest payments. But talking about compliance, we need to do that efficiently, it could be done with software we have, the up and coming software provider for SMEs...it would take nothing to grab their API and extract that data, once a month and calculate liability...so timing of payments could increase compliance costs, but make cash flow management easier”.*

(Tax Professional E, Small Accounting Firm)

Overall, the timing of income tax payments could work well with GST using the cash basis. However, as mentioned above, applying social assistance taxes may have implications for cash flow. Another area that must be considered as well is the provisional tax system, is what would need to change to accommodate multiple payments per year. Further research will be necessary to determine whether paying income tax at the same time as GST adds to compliance costs, and what effect it has on cash flow management, as there are two conflicting arguments.

#### **5.3.1.6 Start-Up and Pre-Trade Deductions**

Expenses incurred before operations begin can be substantial, so it is hoped that businesses can offset those costs against the first year of income (or subsequent years). Currently in New Zealand there is a \$10,000 legal fees deduction. This deduction could be extended to

incorporate other expenses incurred as well. The majority of the participants believe that there should be some concessions related to pre-trade expenditure on top of the existing legal fees deduction. This could be increasing that limit and allowing other expenses, as one interviewee commented:

*“You know there’s a \$10,000 threshold in New Zealand [to deduct legal fees], so for a small business \$20,000 of professional fees is a lot, so that might be an easier way of just saying anything less than \$20,000 just write it off, anything above you need to justify it”.*

(Tax Professional B, Tax Advisory Organisation)

An interesting point was brought up about the pre-trade deduction, in that it would only be effective depending on when a person started their business. A comment as follows:

*“I’m not sure that it would improve compliance but it eases the compliance with a bit of cash flow. If you start your company in April, you’re not going to be paying tax until August the following year, so the claim is irrelevant to those trading in this period...if you started in January, then it would have an impact”.*

(Tax Professional E, Small Accounting Firm)

Overall, there were no major objections from the interviewees against having pre-trade deductions as part of a small business tax regime. However, it does raise questions as to whether it is beneficial for reducing compliance costs.

### 5.3.1.7 Cell Phone Deductions

Currently in New Zealand the cost of cell phone use for business purposes can be deducted, if the business owner can distinguish between business and private use. The majority of the responses given were to simplify this business and private distinction. Two of the six interviewees suggested a percentage a standard percentage to deduct, while others suggest a fixed figure or rate of use, as a simplified method of deducting expenditure. Some comments are presented below:

*“Cell phone deductions, I think you got to go, landlines back then were that you could deduct up to 50% of the total cost. So why don’t we just say 50% of your cell phone cost is for business, and that will be deductible... I think for a lot of people there is a blur between what is private and business”.*

(Tax Professional F, Small Accounting Firm)

*“Cell phones, laptops, those sorts of things, again, as long as they’ve got a primary purpose test, then that makes sense...say like \$50 a week, you don’t have to justify that level, anything above that level, you’ll need to justify...in reality, I’ll just take a slightly lower than what it may have been, but I don’t have to muck around keeping copies of this, that and everything”.*

(Tax Professional B, Tax Advisory Organisation)

*“So, cell phone deductions, you are permitted you know as long as you can show business and private use. I mean the key issue there is, why*

*put somebody there whose small business to the extra expense of trying to figure out what business and private is”.*

(Tax Professional A, Medium Accounting Firm)

The comments made by the tax professionals give some suggestions as to how cell phone deductions could be structured. The key issue is to remove the need to distinguish between work and private use. This can be mitigated by setting a certain percentage of the costs as being deductible, or a standard rate of deduction, which would be considered fair for an average small business. More research is required to determine the best rate at which cell phone costs can be deducted. Furthermore, it was suggested that there should be standardised rules on the total communication expenses, which could include internet and cell phone expenses. This would be a positive impact on compliance costs.

#### **5.3.1.8 Home Office Deductions**

Home office expenses are similar to cell phone expenses, in that they can be deducted if the distinction can be made between business and private use. Similarly, the responses from the interviews advocate a simplified system for businesses for claiming these expenses. Some comments are presented here:

*“Same with home office deductions [referring to cell phone deductions], there’s a blur between private and business lives, so why don’t we just \$2,000 or something, deduction when you know you’re going to do something from home...let’s simplify stuff, but appreciate there will be some unders and overs, but that’s okay because it’s not significant on the large scale of things”.*

(Tax Professional F, Small Accounting Firm)

*“So your private home or device [cell phone] has a business element in it, and its recognising an amount, if that amount is reasonable, most people would be happy with it. If you set it to \$500, you could sit there, it’s not even worth the effort, if you set it to \$2,000 to \$3,000 then, or something that’s reasonable, it actually recognises that a lot of small businesses are run out of people’s homes”.*

(Tax Professional D, Tax Advisory Organisation)

Again, a concession to simplify the calculations required to deduct home office expenditure is favoured by the tax professionals. Overall, distinguishing between private and business use is a huge compliance cost for small businesses. Similarly with cell phone deductions, it is a matter of finding the best rate to allow businesses to identify a figure and deduct it from their income.

### **5.3.2 Other Considerations**

This section will discuss other considerations that need to be made when designing a small business tax regime.

#### **5.3.2.1 What is a Small Business?**

One aspect of designing a small business tax regime is defining certain thresholds of entry into the regime, but more importantly, defining what is a ‘small business’, particularly for New Zealand. As explained in the previous chapters, New Zealand has not adopted a standard definition for ‘small businesses’. Defining who will be eligible for this regime is equally, if not more, important, than designing the concessions offered. All participants gave their thoughts on the matter, with their views presented in the table below.

***Table 18: Possible eligibility criteria into the small business regime***

	Small Business	Micro
Tax Professional A	\$2 million - \$3 million in turnover	Under \$60,000 in turnover
Tax Professional B	\$1 million - \$2 million in turnover	<i>Did not mention</i>
Tax Professional C	\$1 million - \$2 million in turnover	Under \$60,000 in turnover
Tax Professional D	Under \$600,000 in turnover or \$2.5 million	<i>Did not mention</i>
Tax Professional E	Under \$600,000 in turnover and/or less than 5 employees	Under \$100,000 in turnover
Tax Professional F	Under \$1 million in turnover	Link with GST threshold

In terms of defining ‘small businesses’, the tax professionals’ responses did not differ significantly, where the lowest threshold point is \$600,000 in turnover, and the highest threshold being \$3 million. The general comments received were that basing the decision solely on turnover could be problematic:

*“We started talking at about \$2.5 million, which takes away most of the population of New Zealand Businesses...we settled with around \$600,000 turnover per year, if you’re under that, you’re a small business. Those are reasonable sized business, but at about 2-3 million turnover, you could have a service station, or a large supermarket...Most businesses in New Zealand are small businesses, and I think that’s what you really need to look at”.*

(Tax Professional D, Tax Advisory Organisation)

*“I mean \$3 million, that’s bandied around, I think what you need to do is statistical analysis in, what point in time do you get big enough that you start hiring an internal accountant, whether its turnover, profitability, employee numbers...a natural bright line will come in”.*

(Tax Professional A, Medium Accounting Firm)

Tax Professional E believes consideration should be given to the number of employees in the business, as they comment:

*“As for a small business threshold, I think \$600,000 is a little thin, but I think, tie that in with employment and it would give you a better guide”.*

(Tax Professional E, Small Accounting Firm)

An interesting point made was the GST thresholds operate in a tiered format, where the registration point is \$60,000, and up to \$2 million turnover the business may calculate GST on a cash basis. A similar approach could be taken with a small business tax regime, as one interviewee commented:

*“...look at the GST payments basis, the turnover [threshold] is set at \$2 million, there is a number where a business gets big enough where it should be more sophisticated and that becomes your trigger point”.*

(Tax Professional A, Medium Accounting Firm)

This leads onto the next category of small business taxpayers, namely ‘micro’ businesses. This concept exists in the South African regime and is introduced in the New Zealand proposals. General comments accepted the NZICA and TMNZ approach, tying this in with the GST registration threshold. While many agreed that \$60,000 was sufficient, one respondent suggests that the thresholds need to be reviewed:

*“The problem with thresholds, is that it hasn’t been indexed in legislation, so the \$60,000 threshold for GST registration has been*



*around since 1986, so after a while, the definition of the threshold becomes less meaningful...for a long time I have been proponent of actually having some sort of indexation, and now I will say that it shouldn't be changed every year, but even 5 years, it would be worthwhile...perhaps be put up by the CPI or whatever would be a relevant measure”.*

(Tax Professional F, Small Accounting Firm)

Another interesting idea brought up is considering simplicity over accuracy, where defining full definitions of who should be part of the regime adds complexity, even to enter the regime. Further, it is suggested that there be different thresholds for removing businesses from the regime, as businesses could be eligible one year and ineligible in the next. One interviewee commented:

*“So you say, well look, a small business might be better defined by the number of employees and some other objective basis, that might give you a better answer, but at the end of the day, it's not simple. Particularly, you can have a set of rules for these things and if you've got a business at the margin and it's not going to be useful if one year they're in, next year they're out... We have to have this buffer zone”.*

(Tax Professional C, Medium Accounting Firm)

The interviews comments indicate that the entry thresholds, or more importantly, the definition of a small business, could be anywhere from \$600,000 to \$3 million. One method would be to align these thresholds with GST thresholds, but as suggested, there should be a review of the current GST thresholds. The UK reviews its VAT thresholds

yearly, which also means that the entry thresholds into the UK's small business regimes constantly change. Designing the rules for the thresholds should be kept as simple as possible, so business owners can easily know if they are eligible or not. Finally, the exit thresholds should be materially different to the entry ones, to avoid potentially adding compliance costs to businesses sitting on the margins.

### **5.3.2.2 Role of the Accountant**

Introducing a small business tax regime to simplify the tax system could see less work for accountants, as businesses will attempt doing more themselves. The general finding from the interviews is that the accountant can offer more to the business than simply tax compliance work. However, the introduction of a simplification regime does not mean all businesses will automatically become experts in calculating tax liabilities and filing tax returns. As a result of simpler methods, the time spent on tax compliance activities should shrink, and those that wish to do it themselves should find complying with the system less time consuming. Furthermore, those that continue to use an accountant for compliance purposes, should expect a lower cost incurred:

*“Businesses probably does business well, but they don’t actually do tax filing and preparing because that’s not what they actually do. There will still be a place for that sort of stuff to be done, there will be a certain element of people who will do it themselves, unfortunately, they are the ones that will spending the next 3 months trying to fix what they’ve done, that’s always the problem, no matter how simple you make the system...The other thing is that, what it means to, if it’s simple, people can just palm it off to the accountant to do at a lower cost, which will also provide an opportunity for the accountant to*

*provide other services, that they will find useful for the business on a day to day basis...it just changes the dynamics of what you [accountants] actually do”.*

(Tax Professional D, Tax Advisory Organisation)

*“The main compliance cost for small businesses is the accountant, when you take for example a taxi driver with an \$8,000 accounting bill, that’s just absurd, they shouldn’t need to pay more than about \$1,000 a year... ‘we [clients] view this as going to the dentist every year, it may be painful but you have to do it’ and I just think that’s the totally wrong way to approach it...they can’t get out of the paradigm that they need to prepare a full blown set of accounts”.*

(Tax Professional C, Medium Accounting Firm)

A common theme amongst the responses is that business owners are not seeing the value in the financial reports prepared for their business. There seems to be a common understanding that businesses need to utilise their accountants to produce financial reports for the purpose of tax compliance. A comment made that best describes this as follows:

*“The paradigm is that we need to rush to our accountant to get our year-end accounts for tax purposes. If we didn’t need that for tax, would people bother paying the accountant to do financial reports? It should be more about, if people are prepared to pay an accountant to prepare financial reports, they see the value in that, they are paying for value and so that’s fine, but if they get to the end of their income*

*year and all they want to do is get their tax number, then the question is should they be paying an accountant for separate accounts that they don't really want to, but feel the as if they have to".*

(Tax Professional A, Medium Accounting Firm)

According to a one tax professional, enhancements and the availability of accounting information systems already help reduce the compliance work for businesses. So therefore:

*"Yeah, well look, irrespective of whether you have a small business regime, that's happening, whether it's our industry or good chunks of our industry have woken up from that or not is a different matter. But it's just happening, you know the ability for software to meet compliance obligation to 90% level, is already there. So if you're, you know in this profession and you're not readying yourself into the management of businesses, then you'll find that you won't have a role".*

(Tax Professional B, Tax Advisory Organisation)

Overall, the comments indicate that the accounting role cannot simply be replaced by a small business tax regime. However, it will provide easier methods for those that want to meet their tax obligations themselves, which should translate into less time spent by accountants on compliance as well. By lowering the time spent on compliance activities, an accountant has the opportunity to provide other value-adding services to businesses beyond tax compliance. It appears that some of the accounting profession working with smaller businesses need to move away from the old paradigm of merely producing financials for the purpose of compliance, and move towards more of an advisory role where businesses see the value of paying for one.

### 5.3.2.3 Accounting Information Systems

The comments made in the above section show that a lot of the compliance work is handled by accounting software systems. The findings from the interviews show that there is a growth in the take up of computerised accounting systems. Comments that support this are presented here:

*“Yes, big growth, which has shifted a lot of our GST clients away from BankLink software and onto Xero. For me, it’s about getting all of our data in one place and getting the information we want from it easily...there is a continuing trend, New Zealand would have the greatest up take worldwide, you’d be amazed actually, how backwards some places are”.*

(Tax Professional E, Small Accounting Firm)

*“Yeah it depends on the size of the business...I don’t advocate a particular [accounting] software, I tell them to find one that’s applicable for you. But it’s certainly easier, and I encourage many people to use this to manage their finances, not just businesses”.*

(Tax Professional F, Small Accounting Firm)

The shift to computerised accounting systems is clearly encouraged by tax professionals, as most compliance work preparation can be undertaken through various accounting software package. This leads onto another comment about designing the small business regime through consulting accountants, bankers, the IRD, and software developers. By creating a simplified tax system with an optimised accounting software system, transferring data from the business to the IRD or other users of the information, would

immensely reduce compliance costs, as there will be no need immediate need for an accountant for compliance activities. It would further reinforce a movement for accountants to be advisors rather than bookkeepers. This could be easily implemented in New Zealand, as described above, there is increasing up take of accounting software systems, which could put New Zealand ahead of the world in small business tax simplification. The comment below describes this concept:

*“I think if you can go and get your accountants, your bankers, the IRD, and software developers and say look these are the rules we are going to work. What you can do is get the accountants to become advisors, rather than bookkeepers, so you encourage them to change their business model, you can get bankers to understand the financial numbers, and if you can get your software developers to implement all of this, then it’s an easy add on”.*

(Tax Professional A, Medium Accounting Firm)

#### **5.3.2.4 Mandatory or Optional Concessions**

Over the years with the different tax regimes for small businesses, there can be two ways to structure concessions, either making all concessions mandatory or optional whereby the business can ‘pick and choose’. As seen in the Australian and the UK regimes, mandatory provisions such as cash accounting in Australia (Tretola, 2007) or fixed-rate motoring expenses in the UK (Association of Taxation Technicians, 2013), were not favoured by among taxpayers, which resulted in lower take up rates. When those mandatory provisions were removed from the respective regimes, there was an immediate increase in the take up rates. The counter argument is that, having optional concessions adds complexity to the already complex tax laws (Cooper, 1993), as ‘tinkering’ and

adding a set of rules on top of an existing set of rules, effectively adds more layers of complexity. The general consensus among the tax professionals is to keep the concessions mandatory for those that choose to enter the regime:

*“From the research we did, you need to do a package, if you just do one, you’re just fiddling around the edges, and that’s what happened unfortunately”.*

(Tax Professional D, Tax Advisory Organisation)

*“My knee-jerk reaction would be to make it compulsory, tax regime s are always going to be broad brush and imperfect, I think where we fall into difficulty is where we try to make it perfect, which that is simply not possible, and what we do is add more and more layers of complexity, with the intent to make it more perfect and equitable...I don’t like the idea of having lots of rules for lots of different people, if we can avoid it”.*

(Tax Professional E, Small Accounting Firm)

Depending on what concessions are put into the regime, as outlined above, some concessions are intertwined with each other (such as cash accounting and simpler depreciation), then the concessions may have to be mandatory.

## 5.4 Summary

This chapter examined the technical aspects of a small business regime that could be implemented in New Zealand, and more importantly, answered the second research question:

*RQ2. Of the tax regimes (and specific provisions) implemented or proposed in these selected countries, which of them, if implemented, could be expected to reduce the compliance costs of taxation for small businesses in New Zealand?*

Most concessions set out in Chapter 4 were generally believed to be capable of reducing compliance costs. The concessions should be structured as a mandatory set of rules for taxpayers. In terms of thresholds for entry into the regime, the best fit would most likely be to align with the GST thresholds, where under \$60,000 would be micro, and \$60,000 and over but under \$2 million would be small. However, a review of the GST thresholds is necessary, as there is no indexation of these thresholds, and this number may be obsolete.

Another important factor is to incorporate different thresholds for entry into and exit from the regime, because it can be very costly for businesses sitting at the margins. Finally, an accountant's role for the small business should be less on bookkeeping and more on advisory work. There needs to be a shift in the old paradigm for some accounting professionals, as businesses should be paying for value adding activities, rather than merely compliance activities.



# Chapter 6: Conclusions, Limitations and Future Research

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## 6.1 Conclusions

This thesis was set out to explore the possibility of introducing a tax regime in New Zealand which intends to reduce the taxation compliance costs for small business taxpayers. The research was motivated by the lack of government support for small businesses, while the compliance costs continue to adversely affect small businesses. As the concept of a separate regime for small businesses is new to New Zealand, the study sought information from other countries that have had experience with small business tax regimes, created for the purpose of reducing compliance costs. The study sought to answer the following two research questions:

*RQ1. What tax regimes are currently in place (or proposed) for small businesses, in a group of selected countries, to reduce the tax compliance burden of these businesses?*

*RQ2. Of the tax regimes (and specific provisions) implemented or proposed in these selected countries, which of them, if implemented, could be expected to reduce the compliance costs of taxation for small businesses in New Zealand?*

First, the study sought information about different small business tax regimes implemented in several countries around the world. The aim was to identify similarities and differences related to the aspects of each regime, such as the eligibility thresholds, concessions offered, with some general comments made. It was found that the thresholds to enter the regime differed from country to country, with the lowest in the UK (turnover of NZD\$167,670) whereas the highest were Australia and South Africa (turnover of

NZD\$2,140,000 and NZD\$2,200,000, respectively). In terms of concessions offered, a final combined list consisted of:

- Cash accounting
- Simpler depreciation rules
- Simpler trading stock rules
- Different tax rates
- Timing of payments
- Start-up deductions
- Simplified cell phone deductions – can be broader to include communication expenses, such as internet
- Simplified home office deductions

This list of concessions gives a general idea of what could be expected in a small business tax regime. Two contradicting arguments were made about the appropriate structure to implement the concessions: the first is that taxpayers do not appear to favour mandatory provisions, while secondly simply adding an optional set of rules on top of an existing tax system tends to add additional layers of complexity. This becomes problematic for policy development. Based on the comments made on overseas regimes, there have not been many compelling arguments for a specific regime for small businesses.

Secondly, the thesis attempted to shed light on the feasibility of introducing a concessionary regime for New Zealand small business. Six tax professionals participated in a series of semi-structured interviews. The participants were selected using preferential sampling that required the person to have experience with the New Zealand tax system and a particular interest with small businesses tax compliance. All of the tax concessions were believed to be feasible in New Zealand, some used reduce compliance costs and

others used to compensate smaller businesses with a special deduction. The tax professionals were optimistic that a small business regime can be implemented in New Zealand. It appears that the effectiveness in reducing compliance costs varies among the concessions. Overall, the interviewees believe that simplicity should be the overarching principle when designing the rules of a small business tax regime.

Thirdly, this study finds that the role of an accountant needs to change for some, if they wish to continue to add value to small business, both now and into the future. With developments including the accessibility of accounting software, businesses can reduce the amount of manual compliance work, what is often done by owners, staff and accountants. By introducing the possibility of a small business tax regime in New Zealand, it is expected that accountants will receive less traditional work related to bookkeeping. Therefore, accountants can focus on offering other services that add value to businesses.

The study has shown that there is a need for changes in the current tax environment for small businesses. It is evident from the overseas regimes that their regimes do not fully address the compliance costs of small business, but New Zealand has an opportunity to learn from the experiences in overseas regimes, and to provide a more effective regime. As the research is exploratory it builds a foundation for future research into the area of small business tax regimes.

## **6.2 Limitations**

Due to the scope of this thesis, it was important to set pre-determined boundaries to ensure the study was completed in time with the resources provided. The research methods used in this study, documentary analysis and semi-structured interviews, contain

individual limitations, while sharing the limitations of being qualitative in nature. Qualitative research requires more time spent on collecting information compared to collecting quantitative data, which, with the time frame allocated for this study, results in a fewer number of subjects studied.

Documentary analysis was used to collect information about the small business tax regimes from New Zealand and overseas. Using this method requires searching through various information sources to collect enough information to build a case study. However, a major limitation of this is it not possible to include every document about the regimes, as there is just too much information, especially in now, in the era of the 'information superhighway'. Furthermore, with limited resources of a Master's thesis, not all documents were accessible by the researcher, especially since most of the information was collected from foreign countries. One method the researcher undertook to mitigate these limitations was revisiting useful information sources, to ensure all information is up-to-date.

The number of countries studied in this thesis was limited to five due to time constraints. The countries studied were similar in that they were largely common law countries. However, the focal point of this thesis was New Zealand, which is also operates on the basis of common law country.

Semi-structured interviews were used to collect the information about the possibility of introducing a small business tax regime in New Zealand. As stated above, using more qualitative research methods reduces the number of participants able to be studied, given the time frame. This thesis interviewed six tax professionals that had particular experience working with small businesses. As mentioned in Chapter 3, section 3.4.3, prior research has found that a minimum of twelve interviews is required to gather

sufficient information. Due to time constraints, this was unachievable in this study. Furthermore, the participants were selected due to their experience and interest with small businesses, so there may be bias in the responses. However, this was acceptable in this study because the intention was to obtain the opinions of people who work with smaller businesses and understand their needs, in terms of tax compliance.

The interviews only studied the opinions of tax professionals, and not the small business taxpayer, whom are arguably the users of the small business tax regime. This thesis excluded small business taxpayers due to the availability of interested candidates and the time constraints of this study.

### **6.3 Contributions and Directions for Future Research**

In general, this thesis has contributed to the limited body of literature, and provides a foundation for future research and policy development on small business tax regimes in New Zealand. At present, there is a large body of literature that provides evidence to suggest that small businesses face a disproportionate tax compliance burden as opposed to larger entities. The case studies have found that most countries either offer a separate regime for small businesses or provide concessions to relieve the compliance burden on smaller businesses. Therefore, the objectives introduced in this thesis aims to put forward an argument to support smaller businesses through the development of a small business tax regime.

In order to understand what a small business regime could look like, this thesis provides a comparative analysis of five countries that has implemented (or proposed, in the case of New Zealand) a regime. The key components of each regime (entry thresholds and concessions offered) are compared using a standardised measure (New Zealand

currency). At the time of this thesis, there have been no other studies that make such a comparison.

This thesis was also one of the first studies that analysed the proposed regime (NZICA and TMNZ) in New Zealand. This presents the possibility of revising the NZICA and TMNZ proposals

This thesis also provides the opinions on the feasibility of a small business tax regime in New Zealand by tax professionals. Again, this adds a unique dimension (practicality aspect) to the, already, limited body of literature in New Zealand about small business tax regimes.

The limitations and contributions of this thesis present opportunities for future research. Firstly, only five countries, with similar law systems, were studied in this thesis. Future research should expand upon these countries and seek other countries that have implemented a similar regime. The tabled results in Chapter 4 section 4.7.1 and 4.7.2, provides a template for further comparison.

Another limitation was that, only the opinions of tax professionals were gauged, especially those with particular interest with small business. Later studies could incorporate a wider range of tax professionals for comparisons. Furthermore, gauging the opinions of the small business taxpayers and policy developers would provide a richer understanding of how a small business regime should be designed. Small business taxpayers could give a better understanding of what would be helpful in terms of policy, in reducing tax compliance burdens.

The development of a small business tax regime to reduce the tax compliance costs will require more work. This thesis creates a baseline for further discussion and debate on this

topic, with the intention to level the playing for smaller business in terms of compliance burden.

# Chapter 7: References

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# Chapter 8: Appendices

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## 8.1 Appendix A - Human Ethics Approval Letter



HUMAN ETHICS COMMITTEE

Secretary, Lynda Griffioen  
Email: [human-ethics@canterbury.ac.nz](mailto:human-ethics@canterbury.ac.nz)

Ref: HEC 2014/113

15 October 2014

David Ma  
Department of Accounting & Information Systems  
UNIVERSITY OF CANTERBURY

Dear David

The Human Ethics Committee advises that your research proposal "Small business tax compliance burden: what can be done to level the playing field?" has been considered and approved.

Please note that this approval is subject to the incorporation of the amendments you have provided in your email of 3 October 2014.

Best wishes for your project.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L. MacDonald'.

Lindsey MacDonald  
*Chair*  
*University of Canterbury Human Ethics Committee*



## 8.2 Appendix B – Interview Guide

### **Semi-Structured Interview with Tax Professionals**

The semi-structured interview will gauge the opinions related to the concessionary features of a small business tax regime. The interviewees will be given a list of items outlining the type of concessions that are offered in different countries. The list will be emailed to the interviewee ahead of time, so they can think of ideas before the interview.

1. From the list of concessions presented to you, which of them do you think will be feasible for New Zealand to implement?
2. From the concessions you have mentioned out in (1), do you think that they would be effective at reducing the tax compliance burden for small businesses, and if so, why?
3. From the concessions you did not think are feasible for New Zealand, which do you think can be effective at reducing the tax compliance burden for smaller businesses?
4. Can you think of any other concession(s) or regime that would help reduce the compliance burden of small business taxpayers?
5. Do you think that New Zealand should provide a tax system for smaller businesses in order to reduce their compliance burden? If so, why? If not, why not?

Ideas to think about:

1. If a small business tax regime were to be implemented, who should be the targeted audience (especially since many small businesses hire an accountant for their tax needs)?

2. With the upcoming changes to the reporting requirements from the IRD, could a small business tax regime still work in New Zealand? [Will elaborate with the interviewee].

## 8.3 Appendix C – List of Small Business Concessions

### Possible Small Business Tax Concessions

**Cash Accounting:** Using cash receipts and payments to determine the taxable income.

**Simpler Depreciation:** Assets costing under a certain amount (example, less than \$1,000) can be immediately written off and claimed as a deduction. All other assets can be pooled and depreciated using a standard diminishing rate.

**Trading Stock:** Remove the need to conduct yearly stock takes.

**Different Tax Rates:** Businesses will be able to calculate their income tax on a single flat rate.

**Timing of Payments:** Businesses may file their returns at a more convenient time. Example could be paid at the same time as GST filing.

**Start-Up Deductions:** start-up businesses can deduct up to a certain amount for start-up expenses.

**Cell Phone Deduction:** Some businesses use cell phones more than landlines. If it can be separated between business and private,

## 8.4 Appendix D – Information Sheet for Tax Professionals

### College of Business and Economics

Department of Accounting and Information Systems

University of Canterbury

Private Bag 4800

Christchurch



**Researcher:** David Ma

**Telephone:** 021-185-6187

**Email:** [david.ma@pg.canterbury.ac.nz](mailto:david.ma@pg.canterbury.ac.nz)

20 November 2014

**‘Small Business Tax Compliance Burden: What can be done to Level the Playing Field?’**

### Information Sheet for Tax Professionals

My name is David Ma, and I am currently studying towards a Masters of Commerce degree at the University of Canterbury. The research that will be conducted will partly contribute to the completion of this degree. The study aims to explore the possibility of introducing a small business tax regime in New Zealand. As this research is exploratory in nature, all aspects of a small business regime will be considered. The results of the study will provide New Zealand policymakers and potentially the Inland Revenue Department with information that would help them decide whether New Zealand should introduce a tax system for small businesses.

Your involvement in this project will be to express your professional opinion and share your experiences surrounding the idea of a small business tax regime. You will be asked to consider the feasibility of such a regime, in terms of the concessions offered, the effectiveness of concessions, and whether you believe it would be effective in New Zealand and/or other countries. You will be given the opportunity to elaborate on questions, which may be prompted by the researcher. It is estimated that the interview will take between 20 and 40 minutes. Prior to the commencement of the interviewing, you will be asked if the interview can be recorded with a voice recorder; the purpose of this allows for analysis and note taking after the interview.

As a follow-up to this investigation, the notes and analysis will be available for you to review once it has been transcribed (usually 1 week after the interview).

If any confidential and private information about you or your business was disclosed during the interview, this information will not be used.

You may receive a copy of the project results by contacting the researcher at the conclusion of the project.

Participation is voluntary and you have the right to withdraw without penalty. If you decide to withdraw, I will remove information relating to you for up to a month after the interview, at which point any data or information cannot be withdrawn.

The results of the project may be published, but you may be assured of the complete confidentiality of data gathered in this investigation: your identity will not be made public; you will be referred to, for example, as 'Participant A'. The recordings will not be labelled with your name or organisation, but a general labelling system will be used, and the recordings will be stored on a computer protected with a password, and all written notes will be stored in a lockable filing cabinet. Upon completion of the project the recording and written notes will be held onto for a period of 5 years before being confidentially destroyed. These will only be accessible to me, and will only be viewed by myself and my supervisors. Please note that a thesis is a public document and will be available through the UC Library.

The project is being carried out as part of my Masters of Commerce thesis under the supervision of Associate Professor Andrew Maples and Professor Adrian Sawyer, who can be contacted at +64 3 364 2636 and +64 3 3642617, respectively. Alternatively, they may also be contacted through their email addresses [andrew.maples@canterbury.ac.nz](mailto:andrew.maples@canterbury.ac.nz) and [adrian.sawyer@canterbury.ac.nz](mailto:adrian.sawyer@canterbury.ac.nz) respectively. They will be pleased to discuss any concerns you may have about participation in the project.

This project has been reviewed and approved by the University of Canterbury Human Ethics Committee, and participants should address any complaints to the to the Chair, Human Ethics Committee, University of Canterbury, Private Bag 4800, Christchurch ([human-ethics@canterbury.ac.nz](mailto:human-ethics@canterbury.ac.nz)).

If you agree to participate in the study, you are asked to complete the accompanying consent form and return this to me via email or post.

A handwritten signature in black ink, appearing to be 'David Ma', with a long horizontal line extending to the right.

David Ma

## 8.5 Appendix E – Tax Professional Consent Form

### College of Business and Economics

Department of Accounting and Information Systems

University of Canterbury

Private Bag 4800

Christchurch



**Researcher:** David Ma

**Telephone:** 021-185-6187

**Email:** [david.ma@pg.canterbury.ac.nz](mailto:david.ma@pg.canterbury.ac.nz)

20 November 2014

**‘Small Business Tax Compliance Burden: What can be done to Level the Playing Field?’**

### Consent Form for Tax Professionals

I have been given a full explanation of this project and have had the opportunity to ask questions.

I understand what is required of me if I agree to take part in this research.

I understand that participation is voluntary, and I may withdraw from the study without penalty up to one month after the interview has taken place. Withdrawal of participation will also include the withdrawal of any information I have provided should this remain practically achievable.

I understand that any information or opinions I provide will be kept confidential to the researcher and the researcher’s supervisors, and that any published or reported results will not identify me or any of the other participants. I also consent to being audio-recorded during the interview. I understand that a thesis is a public document and will be available through the University of Canterbury Library.

I understand that all data collected for the study will be kept in locked and secured facilities and/or in password protected electronic form and will be destroyed after five years.

I understand that a thesis is a public document and will be available through the University of Canterbury Library.

I understand that all data collected for the study will be kept in locked and secured facilities and/or in password protected electronic form and will be destroyed after five years.

I understand the risks associated with taking part and how they will be managed.

I understand that I am able to request a report on the findings of the study by contacting the researcher at the conclusion of the project during 2015.

I understand that I can contact the researcher, David Ma, at [david.ma@pg.canterbury.ac.nz](mailto:david.ma@pg.canterbury.ac.nz), or the researcher's supervisors, Assoc. Prof. Andrew Maples, at [andrew.maples@canterbury.ac.nz](mailto:andrew.maples@canterbury.ac.nz), or +64 3 364 2636, and Prof. Adrian Sawyer, at [adrian.sawyer@canterbury.ac.nz](mailto:adrian.sawyer@canterbury.ac.nz), or +64 3 364 2617, for further information. If I have any complaints, I can contact the Chair of the University of Canterbury Human Ethics Committee, Private Bag 4800, Christchurch ([human-ethics@canterbury.ac.nz](mailto:human-ethics@canterbury.ac.nz)).

By signing below, I agree to participate in this research project.

Name:

Date:

Signature:

Please email a scanned copy of the completed form to [david.ma@pg.canterbury.ac.nz](mailto:david.ma@pg.canterbury.ac.nz), if you would like to return it in person or post. Thank you for your participation.

A handwritten signature in black ink, consisting of a large, stylized capital 'D' followed by a capital 'M' and a horizontal line extending to the right.

David Ma